How to Get Ahead Financially

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HOW TO GET AHEAD FINANCIALLY

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This book

is dedicated

to my good friend

J. W. DIETZ

SECRETARY, PERSONNEL COMMITTEE
WESTERN ELECTRIC COMPANY

through whose hearty cooperation I have been able to promote thrift among my fellow employees. His enthusiastic interest has likewise made it possible for this book to be published, thus enabling me to be of service to other workers who desire to get ahead financially.

PREFACE

ALL of us want to get ahead. We desire and hope to thrive, to be prosperous and successful; we dream of the time when we will be able to enjoy our own home or perhaps have a business of our own. We hope to travel or partake of some of the bigger and better things of life.

All of us want to be independent. We want to feel sure that if sickness or accident should overtake us, or if for any other reason we should be unable to work, we shall be able to meet such emergencies without being dependent upon others.

Those of us who have dependents would like to enjoy the satisfaction of knowing that if we should suddenly be taken from them, they would not suffer financial embarrassment.

Finally, when we think of growing old, we can visualize only contentment and happiness. The thought of being dependent upon others never enters our minds, especially when we are young and optimistic, because we hope to get ahead and be able to do many things which we cannot afford to do now.

Since it is true that everybody wants to get ahead, why is it that comparatively few succeed financially? According to reliable statistics only about one person in ten has sufficient property at sixty-five years of age to support himself without working or re-

ceiving assistance from others. Why have the other 90 per cent nothing to show for their years of service? Why do so many fail to realize their aspirations?

Some people claim that those who fail financially are aimless wasters, who have no desire to get ahead, who prefer to satisfy present whims and take a chance on the future.

This is a most uncharitable opinion, and I feel sure that most of my readers will agree that it is incorrect. No one would deliberately drift toward dependency through choice.

In my close contact with fellow workers it has been my observation that the lack of a proper financial reserve in most cases is due to the fact that people do not know how to get ahead; they do not realize the hidden treasure in their earnings.

Others do not know what is expected of them, what is meant by financial independence and what reserve fund they should try to accumulate. Many do not know how much insurance they should buy or what kind of a policy will best fit their needs.

It has also been my observation that most of my fellow workers are not only eager to obtain information or advice which will enable them to get ahead, but they will follow such advice when they learn why and how they should do so.

It is with this thought in mind that this book is written. Here you will find simple and workable rules for getting ahead, rules which others are using with success. You will find what financial independence should mean to you and how to reach this goal. You will discover how to determine your in-

surance needs and the kind of a policy you should buy.

Since this sort of information is desired, appreciated, and put into practice by a large number of my own associates, and since my fellow workers are a representative cross section of the workers of this country, I sincerely hope that by publishing this book I may be of service to a greater number of people.

W. A. SCHNEDLER.

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CHAPTER I

Other People Get Ahead

MANY young people start on a business career with ambition and enthusiasm. They hope to be well off some day, but just how it will happen they do not know. Some of them make real progress for a while, as far as increased earning and spending are concerned, but they never seem to get ahead financially. They do not seem to be able to do the things that others are doing who are earning less; they cannot buy a home or an automobile; they cannot travel or do other worth-while things to which they have looked forward.

Finally, not knowing why their dreams are not realized, some of them give up in despair, lose their ambition and enthusiasm, and become resigned to their apparent failure.

Why is it that some men and women with certain incomes do not seem to be able to get ahead financially, have trouble in meeting their obligations, and are frequently in debt, while others with similar or smaller incomes always seem to have

money with which to enjoy the bigger and better things? This is the answer. The former have not yet learned that it isn't how much we *earn*, but what we *save*, that counts. It isn't what we spend now, but what we reserve for future spending, that keeps up our enthusiasm, stirs our ambition, gives us confidence and self-respect, earns for us the confidence and respect of others, and insures our continued progress.

Before you can make much progress toward getting ahead financially you must have a reserve fund. If your ambition is to own your home, you must save enough for your first payment on that home. If you want to be your own boss you cannot start a store or a shop without some capital. If you desire to learn a profession, it is advisable to have sufficient capital to pay your expenses until you can build up a practice or a clientele.

At a recent meeting of employees of a large corporation, a man having more than thirty years of service in the company was asked to say a few words. This is what he said: "During my early years with the company there were two things that worried me and my associates. One was the fear of losing our jobs and the other was the thought of how we would finance a serious illness or other misfortune. We had often heard of salaried people winning large sums of money on horse races or lotteries. We had heard of others who became rich on mining stocks or oil stocks. We had not heard so much about the greater sums which were lost by these methods. Neither had we heard anything about how small sums would grow if invested regu-

larly, at compound interest. We wanted to get ahead, and naturally we tried the only methods we knew."

Then this man told the younger men in the group how much they should appreciate the opportunities they have today of becoming stockholders in the company with which they are connected, how they should appreciate the company's benefit plan which provides for their income during illness and the company's offer to deposit for them a part of their earnings each week in a savings bank.

There are thousands of young men and women today who have the same notion that this man had. They want to get ahead, but they have the mistaken idea that unless they can earn a large salary, unless they can go into business for themselves or win some "easy money," they cannot expect to enjoy anything beyond a mere living.

Working next to these people, however, are others who have learned the secret of getting ahead, who can meet any obligations or emergencies that arise, who own not only their own homes, but other property besides, and who never seem to worry about the future, or financial matters. These workers do not say much about their affairs because, not being "free and easy" with their money, some have accused them of being "tight-wads."

The time has come, however, when such men and women are respected instead of ridiculed. It would be well for you to find out who they are in your organization, get acquainted with them, and learn how they are getting ahead.

CHAPTER II

The Real Meaning of Thrift

> "Thrift is such a simple thing and it means so much. It is the foundation of success in business, of contentment in the home, of standing in society." . . .
> —Russell Sage.

IN SPITE of all that has been said and written about the virtue, necessity, and rewards of thrift, there are some who still have a mistaken idea of this term.

To some people thrift means parsimony, stinginess; being miserly or unduly sparing in the expenditure of money. To others it means saving for the purpose of hoarding.

Thrift is none of these. Noah Webster defines it as "economical management, frugality, prosperity, success." Since these terms are so closely related to getting ahead financially, and since there are few words which have a bigger, broader, and more far-reaching meaning than the word "thrift," let us get better acquainted with its real significance and then let us be proud to be called thrifty.

Thrift is not only saving.

Thrift is mostly spending—wise spending.

Spending for life insurance.

Spending for a home.

Spending for sound investments.
Spending for the education of our children.
Spending for a reserve fund which may be used later if misfortune should overtake us.

Thrift is Really Deferred Spending in Order That we may be Able to Spend More Later. For example: If you have a desire to spend $100 now for things which are not absolutely necessary (not $100 in one lump sum, but in small amounts, over a period of time), just remember that if you will invest this money for about twelve years, your $100 will have increased to $200. In about twenty-four years it will have increased to $400 and in about thirty-six years you will have $800 to spend.

No doubt the spending of $400 or $800 in twenty-four or thirty-six years will give you far more pleasure and satisfaction than the spending of $100 at the present time will give you, especially if the $100 is spent for unnecessary things.

Being thrifty does not mean that we cannot have the things we want or cannot do as we like; it means that we will be able to have and do the things which we thought were beyond our possibilities.

Thrift is systematic and regular saving of a part of our earnings during our productive years for the purpose of having a sure income that will provide our necessities and comforts when our earning power has decreased or when we will wish to relax.

Thrift means getting the most for our money over a long period of time.

Why be Thrifty?—Let us ask ourselves the following questions and see if, in answering them truthfully, we cannot find the answer to "Why be

thrifty?" Some of these questions are not pleasant to contemplate. Yet it is desirable to be prepared for any emergency. Usually those who absolutely disregard these possibilities are unable to meet them when they arise.

If you should suddenly contract a serious illness, or meet with an accident; if you should have to be taken to a hospital and should require the services of specialists and nurses—would you be able to pay for such service if you have no reserve fund? If not, who would have to make sacrifices in order to help you?

If you should be out of employment for a long period of time, and if you have no reserve fund, who will furnish your necessities during this period?

If you should be taken from your family, would your wife be able to support herself and the little ones? Would your children be able to complete their education before going to work? If not, upon whom would you rely to help them out of this situation?

You are working hard now, you have little time for recreation or travel. Would you like to look forward to the time when you can relax, when you can do some of the things you have always longed to do? If so, what are you doing now to provide the necessary funds to enable you to do these things?

During your later years what will your children think of you? Will they admire your independence, your success, or will they feel sorry for you?

You have often heard the expression, "Today will be yesterday tomorrow." This indicates how fast time flies. The same is true when you think in terms

of years instead of days. Next year, when this year shall have become last year, and when this cycle shall have occurred ten, fifteen, or twenty times:

Will you be more prosperous than you are today?

Will you own your home?

Will you be able to give your children a good education?

Will you have many members of the Dollar Family working for you, or will your only earnings come from your own effort from day to day?

Will you be surrounded by evidences of your success or will you be complaining that you never had a chance?

Will you be financially independent?

According to your present standard of living, how many weeks, months, or years would your present reserve fund carry you? Is it enough?

Considering the time you have been working and at the rate you have been accumulating this fund, will there be sufficient funds to meet the larger requirements later?

The answers to these questions in most cases will depend upon how wisely you are spending your earnings today, how much you are reserving for future spending.

The Price of Financial Independence Increases as You Grow Older. When a man reaches the age of forty he is not quite twice as old as he was on his twenty-first birthday, but if he wants to be well off at the age of sixty he must save four times as much each month.

If, for example, a young man at age twenty-one should make up his mind to have $40,000 when he

reaches age sixty, he would have to invest only about $22 a month at 6 per cent compound interest. Whereas, if he does not reach this determination until age forty, then he must invest about $87 a month.

Furthermore, the average young person who, early in life, starts on a definite plan of saving for financial independence, will be better equipped to take advantage of opportunities which may come in later years.

The thing that makes it hardest for young people to save is that today's wants and needs seem so much more real than those which will come with middle and old age. When they are tempted to be extravagant, they find it hard to stop and think how much more real and important the joy and satisfaction of future financial independence will be. Most young people do not give more than a passing thought to the terrible possibility of being poor at old age, it seems so far off. Full of health and vigor, they cannot help being optimistic and self-confident. An old man is going to be dependent upon you some day. He is you. You had better provide for him now while you are earning more than you need to make you comfortable and happy.

It is within your power to make your old age the most pleasant and contented period of your life. Think of looking back on work well done and finances well planned. Think of your own self-respect and the respect of friends who will admire your accomplishments and independence. Think of your children starting on life's hard road without any encumbrances, as far as you are concerned, and you will realize why you should want to save.

The most satisfied and contented people are those who realize that, as a result of their earnest and conscientious effort, as a result of their wise spending and plans for future spending, they are each year adding to their reserve fund.

These people are also strengthening their character, because nobody can put away a part of his earnings for use at some future time, nobody can make up his mind to cut out useless things and stick to his resolution, without strengthening his character.

Some men and women who are not making any provision for the future try to console themselves with the thought that when they grow older they will perhaps be earning more money and then it will be less of an effort to save. They do not seem to realize that when people earn more they usually feel so much more prosperous that they are likely to spend their increased earnings to gratify present desires.

Instead of finding it easier to save when they earn more, some people find it harder because their desires for luxuries and extravagances, their desires to gratify present whims, seem to increase more rapidly than their earnings increase. But real contentment and happiness do not always come from gratifying present desires, and surely nothing can bring greater unhappiness than spending our entire income now, with no regard for the future.

The best indications of what we may expect unless we follow a definite constructive plan for the future are the statistics which have been gathered by insurance companies and others.

These studies show that 84 per cent of all the men who are still living at age sixty-five are dependent upon others. Only one out of a hundred men will be wealthy and four will have incomes at sixty-five. No doubt most of these men expected to be well off some day, but in most cases they did nothing about it but hope and expect. They followed no definite plan and were unwilling to make any sacrifices.

A man who is not providing for the future is a gambler; he is betting Father Time that he can spend all of his income for his present necessities, whims, and desires and still be independent and happy in the future. Since the odds are about twenty to one against him, you can see the chance he is taking. The only way anyone can beat the game of life is to save as much as he can each week or each month for the future without denying himself the necessities and some of the luxuries of the present.

Our Obligation to Our Dependents. Our obligation to our dependents requires that we be thrifty. If during our old age we are dependent upon our children, we perhaps will not only prevent them from having some of the comforts which they might have had, but we might also prevent them from accumulating a reserve which would insure their independence. In other words, dependence may be passed from one generation to another.

On the other hand, if we are independent, thus enabling our children to accumulate more for their own independence, then we will be passing independence from one generation to another.

The great majority of people pass through two

periods of dependency during their lives. The first is before they begin earning their own living, and the second is after they are too old to work. It should be the desire and determination of all of us to eliminate the latter period of dependency from our lives.

The success of any business is not based on its volume of sales, but on the amount of net profit or saving after deducting expenses from its income. The same is true of individuals, because to say that a man has a good income does not necessarily mean that he is a success financially. A man may be a good spender, a "good-fellow," but if he dies, leaving his family without a home, with hardly enough life insurance to pay his debts and with no other savings, his former associates who perhaps helped him to squander his money will likely think less of his being a "good sport" and more about how he failed to provide for his family. Perhaps you will hear them say, "Too bad Jack's wife had to go to business and leave her young children in the care of others. Jack was a good fellow, but he showed mighty poor judgment in the handling of his personal finances."

Our Duty as Citizens. Providing a fund for emergencies such as sickness, accident, or unemployment, and a reserve for old age is not only our duty as citizens; it is a privilege as free men. Only slaves may expect their masters to care for them under all circumstances, but as free men this responsibility rests with us.

We cannot expect our employer, or the state, to provide for us, sick or well, productive or non-productive. If such provisions were made, then we

would lose our self-respect and our incentive to get ahead and be masters of our own future.

There are employers who have liberal benefit plans for supplementing the efforts of their employees to get ahead. But these plans are not intended to carry the whole burden during periods of misfortune or declining years; they are simply intended to lighten our burden at the end of long service.

When you put your money in a savings bank, insurance, or a building and loan association; when you buy a home or invest in some sound and necessary enterprise—you not only create a reserve for your own future happiness, but you contribute to the advancement and greater prosperity of your community and country.

Some men say that they prefer to satisfy all their present desires and let the future take care of itself. Assume for the moment that everyone felt that way and that everyone lived up to his income. Would we have any railroads; would we have any subways, telephones, electric lights, gas, or the many other conveniences so necessary for our comfort? Of course we would not! Why? Simply because all of these advantages which we are enjoying today are the result of the investments of the thousands and hundreds of thousands who, instead of spending all of their incomes, have contributed to the development of our present civilization.

Every American should want to feel that he is doing something toward the progress of the community in which he lives. And that is just what you are doing when you buy a bond or a share of stock in a good, reliable concern, when you put money in

a savings bank or building and loan association, or when you buy insurance. When you put money into these institutions, they do not store it in a vault simply to hoard it, but they immediately lend it to the people who are building our hospitals, churches, schools, and other institutions.

Therefore, aside from any selfish motive for providing for the future, we owe it to society, we owe it to our community, to consume at the moment less than we produce, to spend less than we earn, to be thrifty, to try to get ahead.

President Coolidge has said: "It is not too much to say that almost the whole of what we call civilization is the difference between saving what we make today for use on the morrow, and exhausting it at the time we receive it. And whenever we find a people with sufficient self-control, sufficient balance, sufficient thrift and industry to save their money and increase their capital, there you may be altogether certain that civilization will make progress."

If no one had ever produced more than he consumed, we would still be in a primitive state.

The more we save and invest, the more industries there will be and the larger they will grow.

The more and larger the industries, the more employment and better the wages.

The more employment, the greater our savings and investments should be.

This is how civilization has developed and prospered. It is a great satisfaction to the thrifty man to know that he is contributing to this development and prosperity.

Capital is wealth employed in and available for

production. It is the difference between what one earns and what one spends, the difference between what one produces and what one consumes. When a man earns $10,000 a year and spends it all on mere living, he does not add anything to the capital or wealth of his country. When a man earns only $2,000 and saves $200, he is adding to capital. In order to improve living conditions, have better homes, better transportation and communication, more capital must be supplied. Every dollar put into a savings bank, building and loan association, or sound investments, increases the country's wealth.

The money you invest provides work for somebody, helps somebody to hold his job, and makes your own job more secure. You are not only an investor, you are an employer and a capitalist. You are an employer of dollars.

When you employ dollars, you have the best workers in the world. They work night and day, Sundays and holidays, and they never strike.

Many industries, in order to remain solvent during periods of depression, have been compelled to reduce expenses to the extent of laying off many employees. There will be other periods of this kind, and it is therefore our duty to provide a reserve in order that we may be able to finance these periods of unemployment. However, if every worker would spend less than he earns, if he would put his savings in a savings bank, building and loan association, insurance, a home, or sound investments, then the general economic and business conditions would be so much improved that the periods of unemployment would be greatly reduced.

Therefore, while we are providing funds for financing our periods of unemployment, we are at the same time helping to reduce these periods.

Thrifty Men and Women Are Better Employees. It is the writer's firm conviction that in the not far distant future, one of the questions which an applicant for employment will be asked will be, "How much have you saved?" In most cases the answer will indicate the man's character, will power, determination, imagination, and habits. It will also indicate whether the applicant is likely to become an asset or a liability to his employer.

The problem today with most employers is, "What shall we do with our older employees?" Many large corporations have retirement or pension plans, but in many cases even these do not relieve the situation because the pensions in most cases are only a small percentage of the employees' actual cost of necessities, and since some of these older employees have not saved anything, they cannot be pensioned.

There are workers who are of the opinion that if their employers knew that they were saving money, they might not receive further increases in salary. This, of course, is ridiculous if one has the right sort of employer.

Many progressive employers, having observed the superiority of the thrifty workers over those who never seem to get ahead financially, who are always borrowing, are seldom out of debt, and unable to meet emergencies, have adopted some plan whereby their employees are encouraged to lay aside a portion of their earnings. These industries are rendering a

great service, not only to their employees, but to the community as well, by establishing a connection between the employees and the local banks or by making it possible and convenient for their employees to purchase stock in their companies.

Some employers are so anxious for their employees to save money that they will add fifty cents to each dollar saved by the employee up to a limited amount, provided the employee will save regularly over a definite period and remain in the service of the company.

Other employers make a direct contribution of five dollars a year for five years for each share of the company's stock which is purchased by an employee on the partial-payment plan.

In another concern employees having three or more years of service may participate in a saving fund. Each participating employee must deposit 5 per cent of his annual salary and the company contributes 5 per cent of its net earnings to the fund. This contribution is prorated among the employees in the proportion that the annual salary of each bears to the total for all participating employees.

One large manufacturing concern sells bonds yielding 6 per cent interest to employees, on the payroll deduction plan, and as long as these bonds are held by the employees and they remain in the service of the company, the company adds 2 per cent interest.

Does this look as if employers are not interested in the financial progress of their employees?

They should be, and are, vitally interested, because if their own employees and the employees of

other concerns do not save money, all industries will soon fail.

If all people would stop spending less than they earn, if they would stop buying the stocks and bonds of the railroads, telephone companies, electric light and gas companies, and other industries, if they would stop buying life insurance and would not put some of their money in savings banks or other sound savings institutions, then our employers would no longer be able to continue in business and all employees would lose their jobs.

Insurance companies, building and loan associations, banks and other savings institutions are reservoirs in which are accumulated the reserve funds of our thrifty workers. Although the savings of the individual worker may be small, the combined savings of the millions of wage-earners enables these reservoirs to send streams of capital wherever they are needed for constructive purposes.

Employers know that the thrifty man who is getting ahead, who has a reserve with which to meet his obligations, can go about his work without financial worries. He can accomplish more than the unthrifty one whose debts, installment payments, and the thoughts of what might happen to him or his dependents in case of unemployment or sickness, constantly distract his mind from his work.

The better informed employers know that in every business there must be a certain proportion of capital to every worker. According to the United States Census reports, the automobile-manufacturing business and the iron-and-steel industry each have about $5,000 of capital invested for each man employed.

If the capital is limited, the number of jobs is limited; if jobs are limited, then we have unemployed workers and unemployed workers provide a poor market for the manufacturers or merchants who have things to sell.

Therefore, every employer should encourage and promote thrift among his employees, not only for the sake of the employees, but for the sake of his own direct or indirect benefit, and to promote progress in general.

You Must Pay Interest. Why Not Receive Interest? A part of almost every dollar you spend must pay interest to some individual or group of individuals.

If you rent your home, a part of your rent is applied to paying interest on the landlord's investment. When you ride on a train or street car, even your fare includes interest on the company's investment and bonds.

Your electric light and telephone bills include interest and every merchant from whom you buy your food and clothing must charge enough for his merchandise to cover interest on his investment.

You may have others paying interest to you if you will invest some of your money the same as others have done to whom you are paying interest. You can never get out of the interest-paying class, but you can get into the interest-receiving class if you have the determination to invest a part of your earnings.

The Actual Cost of Unnecessary Things.—Money properly invested earns more money in the form of interest. Therefore, when you spend money for un-

necessary things, when you waste it, you are losing the opportunity of earning interest on it. Hence, the actual cost of these unnecessary things is the amount you pay for them plus the amount of interest you might have earned on that amount until it might have been used for a better purpose.

If, for example, you waste $10, then in one year the articles you purchased really cost $10 plus interest, or $10.50; in two years, $11.03; in five years $12.76; and so on indefinitely.

If, during your productive period of, let us say, twenty years you have wasted only $5 per month, or $1,200, and if this wasted money had been invested at 5 per cent compound interest, then you would have $2,042 more than you have today. This, then, is the actual cost of the unnecessary things you purchased with your $5 per month. With this amount you could purchase an automobile or make your first payment on a home. Or perhaps you would prefer to use this fund to finance the higher education of your child or take a trip to Europe.

Another way to look at the careless or reckless spending of money is to figure what amount of invested capital would be necessary to earn the amount you are spending. For example, when you spend $5 unnecessarily, just remember that this is equivalent to spending the interest on an investment of $100.

CHAPTER III

Your Financial Possibilities

"I have often been asked to define the secret of success. It is thrift in all its phases, and especially thrift as applied to saving. Saving is the first great principle of success. It creates independence. It gives a young man standing, fills him with vigor; it stimulates him with proper energy; in fact, it brings to him the best part of any success, happiness and contentment." . . . —Sir Thomas Lipton.

YOU may ask, "Is it possible for me to build an independent income by means of small savings, regularly made?" It is not only possible, but it is easier than it may appear at first glance.

Many salaried workers whose earnings are less than $4,000 or $5,000 a year have the mistaken idea that they can never enjoy anything beyond a mere living unless they inherit money or obtain a more lucrative position.

Some workers earning $25 a week say they would save some money if their employer would pay them more. However, others earning from $40 to $100 or more a week say the same thing. When they earn $25 or $30 they intend to save when they earn $40 or $50, but when they reach the latter amounts they still intend to save when they earn more.

One of the reasons for such procrastination is that

they are waiting to save large amounts; they do not realize that small amounts saved over a period of time grow surprisingly large. In a hopeless, aimless way they go on spending for things within their immediate means, not realizing that by letting the little things go and saving what they ordinarily spend on incidentals—unnecessary objects—they may have the big things.

Let us see what can be accomplished by saving a small percentage of a modest salary over a period of years. Let us assume that one's salary is about $38.50 per week or $2,000 a year, and that only 10 per cent, or about $3.85, a week is saved. If these savings are invested at 5 per cent interest and if the interest is reinvested, then in about ten years these savings will amount to $2,554, or enough to make the first payment on a home.

In twenty years the investing of 10 per cent of one's salary of $2,000 will amount to $6,740, and in twenty-six years $10,444.

If your earnings are larger and if you will save a larger percentage of such earnings, obviously your reserve fund will accumulate more rapidly and the fund will be correspondingly greater.

For example, let us assume that your earnings are $3,000 per year, that you invest 12½ per cent, or one-eighth of these earnings at 5 per cent interest, and that you reinvest the interest, then in eighteen years your reserve fund will be $10,744 and in twenty-six years it will amount to $19,583.

Now let us see how much must be saved and invested at 5 per cent compound interest in order that

you may enjoy financial independence at a time when you may wish to retire.

The degree of your financial independence and the extent to which you will be able to meet emergencies and take advantage of opportunities will be directly proportional to the amount you are willing to pay for this privilege. Financial independence is cheap at any price and there is nothing you can purchase which will give you as much satisfaction.

First let us see what is meant by financial independence.

No doubt when we reach age sixty or sixty-five, most of us would be well satisfied, and would consider ourselves independent, if, upon retiring, the income from our investments would equal the amount we had been spending prior to retirement, especially if our income in the past had supplied all of our necessities and comforts. Financial independence at old age, therefore, means that we will be able to live according to our accustomed standard without receiving assistance from others.

Assume, for example, that your earnings are $3,000, that you are thirty years old, and that you would like to retire at about age sixty. By referring to Chart I, you will find that by investing 20 per cent of your earnings, or $600, each year at 5 per cent compounded semi-annually and living on the remainder, $2,400, you will accumulate a fortune of $46,278 in thirty-two years, when you will be sixty-two years old. You will also note that the yearly income from this amount will be $2,314, or practically the same as you have been spending.

If your salary is $2,000 and if you invest 20 per

cent of this salary at 5 per cent then in thirty-two years your investment will amount to two-thirds of the amount shown in the above example, or $30,852, and your yearly income from this amount will be $1,542, or about the same as you have been spending. If you are younger than thirty or if you wish to retire later in life than age sixty, then it will not be necessary to save as much as 20 per cent of your earnings.

For example, if you are twenty-nine years old, if your earnings are $3,000 and if you look forward to retiring at age sixty-five, then you will have thirty-six years in which to accumulate your fortune. By again referring to Chart I you will find that by saving $500 or 16 2-3 per cent of your earnings, and investing this amount at 5 per cent compounded semi-annually you may accumulate a fortune of $49,172 which will give you an income of $2,459.

Some workers, who have not many dependents, can save 25 per cent of their earnings and are therefore able to accumulate enough in twenty-eight years to give them an income equivalent to the amount of their expenses. Take, for example, a man earning $3,000 a year and saving 25 per cent, or $750; his expenses, therefore, are $2,250. In twenty-eight years this man will have accumulated $44,790 and his income at 5 per cent will be $2,240, or within $10 of his accustomed living expenses.

Some workers are fortunate enough to be employed by progressive concerns who retire their old and faithful employees on a pension. As a general rule such pensions are not intended to support retired employees according to their accustomed stand-

ards of living, but are intended merely to supplement what the employees should have saved for their retirement period.

Let us say that a worker, whose salary is $3,000, has been investing 16 2-3 per cent of his salary, or $500, each year at 5 per cent compounded semi-annually, and that his living expenses have been $2,500. Now, assume that his pension after thirty years of service is $900 a year; this leaves a difference of $1,600 which should be earned on his own investments in order to meet his accustomed expenses of $2,500. By referring again to Chart 1 we find that in thirty years he will have accumulated $33,997, on which the income at 5 per cent will be $1,700, and this plus his pension of $900 will give him a total income of $2,600, or $100 more than his accustomed expenses.

These examples should be sufficient to enable you to use Chart I in determining your own financial possibilities. The possibilities shown in this tabulation are minimum amounts which may be accumulated by investing savings at 5 per cent interest. They do not take into consideration the possibility of using some of the accumulated funds for buying a home in a growing community and later selling it at a profit as so many workers have done. Neither do they take into consideration the higher interest rates which occasionally may be obtained with safety. However, before investing in real estate or other investments, you should obtain competent advice from a banker. If you do not have a bank account or if you do not know a banker, ask your employer or a fellow-workman to introduce you to one.

Although Chart 1 is computed on an income of \$3,000, it may be used for estimating the results under any income by simply applying proper proportions. For example, if your income is \$1,500, then the results will be one-half of those shown in the tabulation; if your income is \$2,000, the results will be two-thirds of the amounts shown.

The above estimates of savings are based on the assumption that a certain part of a fixed salary is saved each year, whereas most salaried workers, who have not reached the limit of their earning power, should be able to save more as their earnings increase. If a man saves \$300 when his salary is \$2,400, he should be able to save more when he earns \$3,000, and his accumulation will therefore be proportionately greater.

Chapter V suggests a plan for estimating the reserve fund which might be accumulated by those who anticipate increases in salary.

If you want to know your real possibilities, look around among your fellow-workmen and you are likely to find men earning less than you who have not only learned how to spend less than they earn, but they know what to do with their savings. They have learned how to buy a modest home, build up an equity in it, and then sell at a profit which will enable them to buy a better home. Some men buy and sell several homes before they are able to own the kind of a place to which they have been looking forward. In most cases the thing which gave them confidence and made it possible for them to get ahead was spending less than they earned and realizing their possibilities.

Every organization has its thrifty men and women who are getting ahead, so when you think it impossible to save anything on your present salary and if you think the advice and information contained in this book do not apply to workers like you, just remember that many others in just your circumstances are getting ahead.

Pay Your Money and Take Your Choice.—Which do you prefer to provide first, a \$12,000 home, an independent income of \$60 per month, or a \$1,000 automobile?

From a financial point of view, each will require the same investment over a period of fifteen years, and if you feel that you can finance the purchase and maintenance of an automobile, then you may be sure that it is possible for you to have \$12,000 at the end of fifteen years, if you prefer.

Assume, for example, that your \$1,000 car will be used five years before it is traded in for a new car and that the allowance toward a new car is \$200. In other words, your second and third cars will each cost you \$800 net. Assume, further, that the cost of operating your car will average \$25 per month.

On the opposite page is a comparison of how this amount of money may be spent either for an automobile, for a home or an independent income.

You pay your money and take your choice.

It does not necessarily mean that if you choose the home or the financial reserve, that you must wait fifteen long years before you can own an automobile. The examples are based on the assumption that the difference between your salary and actual living expenses averages about \$40 per month; therefore,

AUTO

Price of first car	$1,000
Net cost of second car	800
Net cost of third car	800
Expenses for fifteen years at $25 per month	4,500
	$7,100
Assets at end of fifteen years—second-hand car worth about	$ 200

Plus the satisfaction of the pleasure and service which the automobile gave over a period of fifteen years.

HOME

Value of home	$12,000
Auto expense first three years applied to cash payment on home about	2,000
During next twelve years amount paid toward reducing the mortgage	5,000
Total equity in home	$ 7,000
Balance carried as mortgage	5,000

The rent you save pays the carrying charges on the home.

As payments are made on the mortgage your carrying charges are reduced and your savings grow larger progressively; for example, when you have paid $500 your interest is $30 a year less; when you have paid $5,000 your interest is $300 less.

$12,000 RESERVE

Price of first car, $1,000 invested at 6 per cent compound interest for fifteen years	$ 2,427
Price of second car, $800, invested at 6 per cent for ten years	1,445
Price of third car, $800, invested at 6 per cent for five years	1,075
$25 per month expended over period of fifteen years, invested at 6 per cent	7,261
Total reserve at end of fifteen years	$12,208

Income from this reserve, $61 per month.

at any time in the future when, by reducing your expenses or increasing your income, you can save $80 per month, then you may also finance the automobile.

Those who prefer an automobile first have a right

to that preference, because to some an automobile is a greater necessity than a home. For such this comparison is not intended. It is intended for those who prefer a home, or a reserve fund, and who do not realize that one is just as easy to finance as the other.

Neither is this comparison intended to take any joy out of life, but rather as a helpful suggestion as to how you may obtain greater joy by knowing in advance what your possibilities are.

Young People Should Learn Their Financial Possibilities.—Young boys and girls just starting on a business career may learn their financial possibilities early in life by assuming some large future obligation for which they must save money. This may be a needed piece of furniture, a good radio set, vacuum cleaner, or washing-machine for mother. The satisfaction of really being able to save enough to purchase eventually the more worth-while things of this sort will give most boys or girls a thrill, will increase their self-respect and confidence, and will show them their larger possibilities when their earning power is increased.

Many ambitious young people whose parents are not able to send them to college are working and saving for their own education. An important part of an education obtained in this way is the realization of the value of money and of one's possibilities. When these young people grow older they will not hesitate to go after the bigger things, and, having learned their possibility, they are likely to get what they go after.

A Definite Plan for Getting Ahead Is Necessary
Saving in a haphazard, hit-or-miss way, saving when

it is convenient or when the money is not needed for other purposes, rarely produces satisfactory results and is seldom continued long enough to be worth while.

The most satisfactory and surest way is for you to make up your mind resolutely to put away a certain percentage of your earnings each pay day. If your earnings are small, then it will be necessary for you to deposit your savings temporarily in a savings bank, cooperative bank, credit union, or building and loan association. If your earnings are larger, you may buy a good bond or other safe investment on the installment plan.

If your employer has a thrift plan which provides for making deductions from pay and depositing them in a savings bank for you, by all means take advantage of this service in preference to making your own deposits, because there will be times when it will not be convenient for you to go to the bank or you might occasionally persuade yourself to use for other purposes the amounts which should be saved.

If your employer has an attractive plan for selling stock to employees, and if, after a thorough investigation, you are satisfied that the company has always paid dividends and is likely to continue paying dividends; if you have the utmost confidence in the ability and integrity of the management, and if there is a market for the stock (in case at any time you should be compelled to dispose of it)—then it would be well to take advantage of such a plan.

The most successful savers are those who assume some responsibility which must be met at regular

periods, such as buying a home, especially on the building and loan plan, where the mortgage must be paid instead of being allowed to stand indefinitely. Life insurance is an excellent compulsory savings plan, and investments bought on the installment plan at a certain specified amount each week or each month are usually paid for in much less time than a similar amount would be saved by the haphazard method of saving when convenient.

Before undertaking the purchase of investments on the installment plan, ask a reliable banker what, where, and how to buy, because the installment plan is used by some brokers who should not be patronized and who use it to sell so-called investments which are worthless.

We should not only have a definite plan for saving money, but we should also have a definite idea of what we are saving for. One cannot get much satisfaction out of putting away \$5, \$10, \$50 or \$100 a month just to see the money accumulate. The real pleasure in saving is in having an objective, a goal, a future desire, which our saving will enable us to reach. When we have a goal, and a plan for reaching it, we are not only more likely to reach it, but the chances are we will reach it sooner than we expected. We can then plan for something bigger and better.

Many people who are not providing for future spending, no doubt consider saving as an object in itself, whereas it is simply a means to an objective. It is the objective which makes saving interesting and worth while.

Your first objective may be a reserve fund which

will enable you to finance any period of unemployment, sickness, or other misfortune, without being a burden to others. Your next goal may be a home or a business of your own. Upon reaching your earlier intermediate goals, and having learned that it is possible for you to get ahead, your ultimate goal should be financial independence during your old age.

Remember it is not what you *earn,* but what you *save,* that really counts. Financial independence at old age, or the possibility of getting ahead, is not confined to those having large incomes. There are men, and women too, whose earnings range from $30 to $40 per week, who not only own the homes in which they live, but they also own considerable other property. In many cases the amounts accumulated by these workers were not saved from their salaries alone; some of them bought homes and sold them at a profit, and others made other good investments which resulted in a profit. However, in most cases, the first $500 or $1,000 which was used for making the initial payment on their homes, or with which they established their credit, or got their start, was saved from their earnings.

On the other hand, there are men and women whose earnings have ranged from $3,000 to $5,000 or more a year, for many years, and who have not saved a cent; in fact, some of them are heavily in debt. So you see it is not the amount that you *earn,* but the amount that you *save,* that determines whether or not you are getting ahead.

After recognizing your financial possibilities and after adopting a definite savings plan, it would be

well for you to take an inventory at least twice a year in order to note your progress.

Following is a suggestion for a form to be used for this purpose:

WHAT WILL MY INCOME BE AFTER I RETIRE?

I hope to retire at the age of ______

My present age is.......... ______

Remaining years of productive work.... (a) ______

1. Value of securities, building and loan shares and other interest earning investments.... $______
   Less amount due or borrowed on securities.............................. ______
   Net interest earning investments...... (b) $______

   If Item (b) is invested at 5% interest compounded semi-annually for (a) years, this amount will accumulate to (see Table 1—on opposite page). (c) $______

   Example: If interest earning investments are $5,000 and if you expect to retire in 20 years, then according to Table 1 your investments will accumulate to $5,000 x 2.69 or $13,450.

2. Present Annual Savings from Salary... (d) $______

   If I continue my present rate of annual savings (d) and invest these savings and all interest received at an average interest yield of 5% for (a) years, these savings will accumulate to (see Table 2—on opposite page). (e) $______

   Example: If present annual savings are $250, then according to Table 2 your total savings for 20 years will accumulate to $250 x 33.70 or $8,425.

3. Bank Balances................................ (f) $______

4. Cash Value of Life Insurance at retirement age..... (g) $______
   (This may be obtained from insurance policies)

5. Total Assets at Retirement Period
   Not including Equity in Home (c + e + f + g)... (h) $______
   Equity in Home............................ (i) $______
   Total Assets (h + i)...................... (j) $______

6. Annual Income After I Retire

	If Home Is Not Sold	*If Home Is Sold*
Income from investments....	$ ______ (5% of h)	$ ______ (5% of j)
Other income, such as pensions, annuities or inheritances	$ ______	$ ______
TOTAL ANNUAL INCOME...	$ ______	$ ______

NOTE: After retirement, instead of spending only the income from your investments, you might spend a part of the principal plus the interest each year. In this case, your interest will grow smaller as the principal is reduced.

INTEREST TABLES REFERRED TO IN SECTIONS 1 AND 2 ON THE OPPOSITE PAGE

TABLE 1

$1.00 invested at 5% interest compounded semi-annually will accumulate as follows:

Years	*Amount*
10	$1.64
12	1.81
14	2.00
16	2.20
18	2.43
20	2.69
22	2.96
24	3.27
26	3.61
28	3.98
30	4.40
32	4.86
34	5.36
36	5.92
38	6.53
40	7.21

TABLE 2

$1.00 per year invested at 5% compounded semi-annually will accumulate as follows:

Years	*Amount*
10	$12.77
12	16.17
14	19.93
16	24.08
18	28.65
20	33.70
22	39.28
24	45.43
26	52.22
28	59.72
30	68.00
32	77.13
34	87.21
36	98.34
38	110.63
40	124.19

CHAPTER IV

Spending Less Than One Earns

"Everyone knows that it is not what is earned, but what is saved, which measures the difference between success and failure. This is a difference so slight from day to day as to seem unimportant and of no consequence, but in the aggregate of even a few years, it amounts to a sum of great importance. The ability to save is based entirely upon self-control. The possession of that capacity is the main element of character. It passes over at once into the realm of good citizenship." —Calvin Coolidge.

WHEN a man spends more than he earns, he is a failure financially; when he spends only as much as he earns and just comes out even each year, sooner or later he will be a failure, financially, unless he changes his methods. Financial success comes from spending less than one earns and investing the difference wisely.

I would not presume even to suggest how you should spend your money in order to get ahead, how much you should spend for clothes or amusements or anything else. That is your own personal affair and each man or woman has a different idea in regard to what should be classified as necessities, comforts, or luxuries. However, there is one thing on which all salaried workers who do not expect to inherit a

fortune must agree, and that is this: if you want to continue enjoying the necessities and some of the comforts and luxuries in the future, when you are no longer able to work, or if you want to provide these things for your dependents in case you are taken from them, *then you must spend less than you earn now.* You must consume less than you produce during your productive period.

Here is a simple and workable rule for spending less than you earn:

The first thing, each pay day put away about 10 per cent of your earnings in a savings bank, credit union, cooperative bank, building and loan association, or other reliable savings institution, and then spend the remainder as you please. In other words, spend what you do not save, rather than save what you do not spend. By saving first, and spending what is left, you will automatically cease buying the things which are least necessary for your present happiness. You will not allow the slight curtailment in your present spending to affect your real necessities and comforts.

Trying to save what is left after spending the greater part of your salary does not usually result in satisfactory saving, because frequently there is nothing left to save.

A prominent railroad president, in speaking of his start in life, said, "I tried hard to save money, but results were disappointingly small, until one day I tried a new plan. *Just put a definite amount in the bank when I first got my pay and lived on the rest.* From that time on I began to get ahead rapidly, the money in the bank grew regularly and surprisingly,

and I didn't have to think and skimp all month. *We just spent what was left.*"

When you find how easy it is to save 10 per cent of your earnings and how little you have missed the amount saved, increase your savings each pay day to 12 per cent of your earnings. Continue, from time to time, to increase the amount saved until a further increase would begin to affect your necessities and comforts. That should be your limit, because it is just as foolish to save so much that you cannot be happy and contented now, as it is to spend so much now that you cannot be happy and contented in the future.

As suggested in the previous chapter, if your employer has a plan whereby employees may request that certain amounts be deducted from their pay and deposited in a savings bank, you should take advantage of this service because it is the surest method of making regular deposits each pay day.

When your savings account is larger than is re-required to meet certain fixed expenses for which you might be saving, or when it exceeds the amount which might be needed for emergencies, then it would be well to consider withdrawing this excess and reinvesting it in a good sound bond which will yield better than savings-bank interest. The savings bank will be glad to help you in the selection of such an investment. The interest you receive on your investments should be deposited in your savings bank in order that the next bond may be bought in a shorter length of time.

Every insurance company is compelled by law to provide a reserve for each policy written, in order

that claims may be paid whenever they fall due in the future. Every bank, railroad, public-service company, in fact every successfully managed industrial organization, has its reserve for meeting future obligations. The same should be true of every worker, because each worker is like a business organization. He has his gross income in the form of salary, wages, or commission; he has his operating expenses. These expenses should be less than his earnings in order that there may be net profits for expanding his business of living and for meeting future obligations.

Cost of Luxuries in Days of Labor. What does it cost, in terms of days of labor, to satisfy your desire for some of the unnecessary unwholesome things of life?

Suppose that your income is $2,000 a year and that your cost of food, shelter, clothing, and other actual necessities is $1,600. Your net income which you can spend for other than necessities is $400. You have no choice as to how you will spend the $1,600, because this must go to the butcher, grocer, landlord, public-service company, and others who are on your pay roll. The $400 is what you have earned for yourself and this is equivalent to $1.30 per day.

Therefore, if you feel like spending $10 for something you could do just as well without, some luxury which must be paid for out of your net income, remember that this $10 net income is equivalent to eight days' work and perhaps you will come to the conclusion that the labor required to procure this unnecessary thing is more than it is worth. Perhaps

you will decide that it is better to put this amount, and similar amounts, where they can be used for necessities or emergencies at some future time. If your income is less than $2,000, then obviously the length of time you must work for a given net income will be proportionately greater.

The same principle applies to any business. A merchant sells $8,000 worth of merchandise; this is his gross income or the vehicle from which he derives his gross profit. If the merchandise cost him $6,000, his gross profit would be $2,000, which is the same to his business as your salary is to your family. His expenses for selling this material, let us assume, amount to $1,600. This is equivalent to your expenses for necessities.

The difference between his gross profit of $2,000 and his expenses of $1,600 gives him a net profit of $400 on his $8,000 sales and this is the same to his business as your net income is to you. It is from this amount that the merchant must create his reserve for periods when business is bad and also expand his business just as the individual must create his reserve and increase his estate.

Spending Wisely. The easiest thing in the world is to spend money; anyone can do that.

To spend wisely is not so easy; it requires thought and careful planning. To create a reserve for future spending requires vision, strength of character, and a determination to get ahead.

There is a lot of difference between the things we want and the things we need. Buy what you need, but do not always buy what you think you want. If you are not sure whether you need or want certain

things, wait a few days. If you can be happy without them, then you do not need them.

The reckless spender, due to his indulgences, sooner or later becomes involved in debt and frequently gets into the clutches of the loan shark or is pestered by lawyers or collection agencies who threaten to garnishee his wages. The result is worry and inefficiency, which affect his progress.

On the other hand, a wise spender who is able to meet his obligations, retains his self-respect and independence. He is generally optimistic and cheerful and an asset to any organization.

Spending wisely does not mean that we must practice self-denial to the extent of doing without essentials, but rather that we should practice self-control in the matter of spending. We are not spending wisely when we skimp on eating or on necessary clothing for the sake of saving. The wise spender saves first, thus providing for his future necessities. Next he provides for his present necessities, and then, if he has anything left, he may consider present luxuries.

Wise spending really means apportioning our earnings in such a manner that we will be able to buy our necessities during illness, unemployment, or our retirement period, as well as at present. It means getting the most for our money over a long period of time. It also means paying cash for what we need rather than using the installment plan; it means receiving interest instead of paying interest.

The wise spender spends so much for the things which have a lasting benefit, such as a home, life in-

surance, and sound investments, that he has little left to spend unwisely.

A good time to increase our reserve fund is when our salary is increased. We should not look upon a salary increase as a time for increasing our present spending alone, but as an excellent time for providing more for future spending. In other words, when our salary is increased we should improve our standard of saving and investing as well as our standard of living.

Workers whose earnings are small and who are not enjoying some of the comforts which they desire, should apply the greater part of their increased earnings toward providing such comforts. On the other hand, if their present earnings are sufficient to provide all present necessities and most of the comforts, then a greater part of their increased earnings should be applied toward providing future necessities and comforts. It would seem that anyone should be willing to apply at least 25 per cent of salary increases to savings and investments, and use the remaining 75 per cent for satisfying present desires.

In most cases, where savings in the past have been from 10 per cent to 15 per cent of earnings, the additional saving of 25 per cent of increases should be ample. But where past savings have not been sufficient, it might be advisable to save a much larger portion of salary increases.

Immediately upon receipt of a salary increase, you should decide what portion of it will be saved and a definite plan should be made for putting it away each pay day.

In deciding what portion of salary increases should

be saved, you should remember that when a man begins to earn a little more than he needs for actual living expenses, he is likely to want a great many things which formerly he did not consider necessary for his happiness, and unless he possesses sufficient self-control, he will not only spend his increased earnings for things he does not need, but he might go into debt to satisfy his whims.

Keeping Up with Your Neighbors. The failure of some people to get ahead is due to their trying to keep up with their neighbors. One should possess sufficient individuality not to be influenced too much by what others do or say. One should remember that about only one out of ten has sufficient property at age sixty to support himself without working or receiving assistance from others. Hence most of our neighbors are not good examples to follow!

Many luxuries are indulged in for the purpose of making an impression on one's neighbors or friends. Although such hypocrisy may be effective with some people for a while, their impression will change quickly enough when they learn that such pretense was only sham.

If you want to win and retain the respect of the more substantial people in your community, live within your means, pay your bills promptly, protect your family's future and your own future; be yourself; be independent.

If you want a real example, a real inspiration, find the neighbor or fellow-workman whose wages are about the same as yours, who pays cash for what he buys or is able to pay his bills when they are due;

who adds to his reserve every pay day, is ready to meet emergencies and unusual expenses, and is facing the future with confidence. He is the fellow to follow, because he is on the road to happiness and contentment.

CHAPTER V

How Much Should I Save?

"Teach economy. That is one of the first and highest virtues. It begins with saving money." . . .
—Abraham Lincoln.

THIS question is in the minds of most workers who have come to the realization that their future spending, their future purchasing power, will bear a definite relation to their present spending.

The answer to this question in each case will depend upon the number of dependents and their ages, the accustomed standard of living, the earning power of the individual, and many other factors.

It is worth while to plan a savings program extending to one's expected retirement age in order to determine what kind of a program one should adopt in order to reach a certain goal.

The following is offered as a suggestion for such a plan, and is based upon the following assumptions:

1. Married man thirty years old, with two dependents, a wife and one young child.

2. Present earnings $2,400, with possibilities of gradually increasing earnings to $5,000.

3. Wife has been a business woman and could earn some money to supplement any estate left by her husband in case of his death.

4. The man and his wife have saved some money,

but this is to be held in reserve to meet any emergencies which may arise.

5. The man hopes to be able to retire at age sixty.

Now let us refer to Chart 2 and consider each column of figures separately.

B—Estimated Salary. Taking into consideration the education, training, and ability of this man, let us say that he can safely assume to be earning $5,000 before he reaches his retirement period. He may reasonably hope to be earning in excess of this amount; in fact, it is possible that he may develop into an exceptional man and earn $50,000. However, in preparing a program of this kind, perhaps it would be better for him to set a reasonable goal on which to base his possibilities, and then revise his estimates when actual experience indicates that he either over-estimated or under-estimated his possibilities. Some one has said that when one of our late millionaire railroad magnates first started on a business career, he set for himself a goal of $100,000. He was worth many millions when he died.

The salary increases of $100 per annum are not based on the experience of any individual or group. They do not mean that this worker should expect these increases, neither do they mean that he should not expect greater increases. They simply mean that if he will make at least this rate of progress and if he will meet other conditions which follow, then he can feel reasonably sure of being financially independent for many years after retirement.

C—Savings. Here we assume that this worker will save 15 per cent of his salary the first year, including the amount paid for insurance; that each

year thereafter, in addition to his savings during the previous year, he will save 25 per cent of his salary increases. In other words, for each increase of $100 in salary he will add $25 to his annual savings and spend $75 more toward increasing his standard of living.

At this rate his maximum savings, including insurance premiums, will be only 20 per cent of his salary and he will not reach this maximum saving until fifty-five years of age.

D—Insurance Premiums. The amount of insurance which it is proper for a man to carry should be based upon the number of his dependents, how long it will be before his children become self-supporting, and the estimated minimum expenses of his dependents in case they are thrown on their own resources by his death.

This particular plan provides for $10,000 of Ordinary Life Insurance. This is perhaps more than is provided by most men whose earnings are about $2,400 per annum. And yet it is little enough when one considers that this man might be taken from his family at an early age and before he has had an opportunity to accumulate much of an estate besides insurance.

For example, if he should be taken at age thirty-five, then the insurance and savings of $11,000 (as indicated in column K) if invested at 5 per cent and spent at the rate of $2,000 per annum, will last only about six or seven years, depending upon when and in what amounts the principal is withdrawn. This would not be sufficient to support his family according to their accustomed standard of living until the

child could become self-supporting. It would be necessary, therefore, even with $10,000 insurance protection, for his widow to make a material reduction in her expenses or for her to earn some money as soon as she could leave the child in the care of others.

If the man should be taken at age fifty, when the expenditures of the family, not including savings and insurance, are about $3,465, then if his widow spends his estate of $23,712 at the rate of $3,000 per annum, this estate, if invested at 5 per cent will last only about ten years. By this time perhaps it will be too late for his widow to obtain employment, and in order to conserve her inheritance as much as possible, it will be necessary for her to make a considerable reduction in her living expenses.

Therefore when a man has a wife and one or more young children, he should try to carry at least $10,000 worth of insurance, unless he expects his widow to be self-supporting or dependent upon others, or unless he or she has sufficient estate in some other form.

If, therefore, the salary progress of this man or the interest on his investments is greater than estimated, his first consideration should be additional insurance.

E—Investments. In this column is shown the amount available for investment after deducting insurance premiums from total savings. These amounts should be invested conservatively to yield at least 5 per cent interest. Since the investments for the first four or five years are small, they perhaps can be more conveniently invested in a building and

loan association. Later the larger funds may be used to buy sound bonds through reliable bond houses on the installment plan. Many progressive banks will purchase a bond for a depositor on the basis of a payment of 20 per cent to 25 per cent of the market value of the bond and a note for the balance. The bond to be held by the bank as collateral until the note is paid.

All interest on investments should be promptly reinvested. When these interest earnings are small they should be deposited in a savings bank or building and loan until they accumulate a fund large enough to buy other investments which yield more interest.

F & G—Interest on Investments. The investments shown in Column E are accumulated during the year, and instead of earning 5 per cent on these amounts for the entire year he will earn 5 per cent on only one-half of these amounts, which is equivalent to 2.5 per cent of the total amount. This interest is shown in Column F.

The interest in Column G is 5 per cent of the previous year's total in Colume H. For example, the interest of $6.50 for the second year in Column G is 5 per cent of $130.17 shown in Column H.

H—Total Investments and Interest. This column shows total accumulated investments each year and is obtained by adding Columns E, F, and G for the current year and Column H for the previous year. For example, the total of $366.27 for the second year is the sum of the investment of $224, the two interest items of $5.60 and $6.50 in the second year, and the item of $130.17 in Column H for the previous year.

After five years or more this man may wish to use his savings to make a payment on a home. This would not affect his financial program because he would simply transfer his funds from one investment to another. However, if he obtained a good bargain in his home and if the interest on his mortgage is at the rate of 6 per cent, then any additional funds applied to the payment of such mortgage would be equivalent to investing money at 6 per cent instead of 5 per cent as provided for in this plan.

If, when this man reaches age sixty, he desires to retire, he may do so knowing that the $33,122 retirement fund, if properly used, will support him during his remaining years.

The interest on this amount at 5 per cent will be only $1,656 per annum, and since he has been spending the difference between his $5,000 salary and $1,010 savings (or $3,990), he perhaps will not want to reduce his expenses to $1,656. It will be necessary, therefore, to use some of the principal each year; how much he can afford to use will depend upon how long he wants the fund to last.

If, for example, the fund is invested at 5 per cent interest and he withdraws $2,000 each six months, then the fund will last about eleven years. If he withdraws $1,750 each six months, then the fund will last about thirteen years. The fund will be exhausted in sixteen and one-half years if he withdraws $1,500 semi-annually, and it will last twenty-two years if only $1,250 is withdrawn semi-annually.

When this man reaches age sixty his need for insurance may have passed, in which case he could either accept the cash value of $4,575 or purchase an

annuity which would give him an annual income of about $445. If he accepted the cash value of the insurance and added it to his investment fund, then his total fund of $37,697, if withdrawn at the rate of $1,500 semi-annually, would last about twenty years or until he is eighty years old. If withdrawn at the rate of $2,000 semi-annually, then his total fund of $37,697 would last about thirteen years. Or he could buy an annuity with this fund which would give him an income of about $3,667 annually.

If this man should be fortunate enough to have worked for an employer who has a pension plan, and if his pension after thirty years of service should be about $1,400, then by adding this amount to the interest on his own pension fund (or $1,656), he will have an income of $3,056 without using any of his principal, or he may use some of the principal and spend at the rate of $4,000 per annum, to which he has been accustomed, without the fear of not having enough to support him the remainder of his life.

I—Cash Value of Insurance. The amounts in this column indicate the cash value of this man's insurance each year. If during his later years his dependents should predecease him, and he decides that he no longer needs insurance, then he may withdraw the cash value for his own use or he may purchase an annuity with it.

J—Total Estate. The sum of this man's total investments and interest shown in Column H and the cash value of his insurance Column I, represents the total estate that is available to him while he is alive.

K—Total Estate of Dependents. The total estate of his dependents in case of his death is, of course,

larger than his investment estate at any time, provided he keeps his insurance in force. Column K indicates the amount which he would leave to his dependents if he were taken from them any time during the thirty-year period. If he dies any time after age sixty he will leave an estate of $43,122, provided he has not spent more than the interest on his estate. If, after age sixty, it is necessary for him to use some of the principal of his estate, then of course the estate of his dependents will be that much less.

Thirty years of age has been chosen as the starting point, simply to indicate what can be done between that age and age sixty. It is not meant to imply that a younger man can safely sit back and wait for the thirtieth birthday before setting a financial goal and launching a definite plan for reaching it. An earlier start makes possible a higher goal and thus brings additional comforts in the future. It also leaves a larger margin of safety to guard against the temporary setbacks or misfortunes which are likely to enter into the most carefully laid plans.

This is a conservative plan of what you may accomplish without taking any chances. After you have accumulated a little capital you will have opportunities to make safe investments which may yield better than 5 per cent interest. You might have opportunities to buy a home at a bargain and later sell it at a good profit, or you might establish yourself in business. However, before making any investment, before taking any risk, *be sure to investigate thoroughly.* Seek the advice of your banker and your building and loan association.

CHAPTER VI

Funding Unusual Expenses

"The best way to accumulate money is to resolutely bank a fixed portion of your income, no matter how small the amount." . . . —Andrew Carnegie.

MANY of our financial difficulties are due to the fact that we do not make proper reserves for the unusual expenses which must be met during the year, such as insurance, taxes, and interest on mortgage, and when these payments fall due some of us find that we have not the money with which to meet them.

Assume that your salary is $40 per week. If you spend an average of $40 per week, without making a reserve for your unusual fixed expenses, then when your insurance and taxes come due, you naturally will be embarrassed.

It is a better plan to estimate your unusual and fixed expenses for the year and deposit in a savings bank a proportionate amount each pay day. For example, if you find that your estimate for life insurance, interest, taxes, vacation, Christmas, and emergencies totals $520 a year, or an average of $10 a week, then if your income is $40 you really have only $30 of this income to use for your regular expenses and you should be spending from day to day

at the rate of $30 instead of $40 a week and the difference of $10 a week should be put in the savings bank. Then, when your insurance, taxes, interest, and other fixed expenses fall due, you will have the satisfaction of being able to meet them and, in the meantime, you will have received interest on your deposits.

Following are some of the items for which a reserve should be provided:

Insurance premiums	Vacation fund
Taxes	Christmas fund
Fuel	Furniture
Interest on mortgage	Clothing
Payments to reduce mortgage	

Making a reserve for these items, depositing a part of your pay each week or each month in a savings bank or credit union is equivalent to paying them on an installment plan which *pays* interest rather than *charges* interest. It is really putting your spending on a simple and systematic budget basis.

People who use a savings bank for creating a reserve for unusual expenses do not have a shock when they receive their tax bills. They do not have financial worries when interest falls due on their mortgage or when the house needs painting. Having provided for these expenditures in advance, the necessary funds are available in their savings accounts and they are able to perform their various duties without annoying thoughts of money.

Besides, there are other advantages. Take, for example, insurance premiums. Some insurance com-

panies add 6 per cent to their annual premiums and divide by 4 to obtain the quarterly premium, and they add 4 per cent to their annual premium and divide by 2 to obtain the semi-annual premium.

If you are paying your insurance premiums on the semi-annual or quarterly basis and if you will deposit a proportionate amount of your annual premium in a savings bank each pay day, then you will eventually be able to convert your insurance to the annual premium basis and not only save this additional premium but you will earn interest on your deposits.

Consider another item on the above list of reserves, your coal bill.

In most localities coal is not only more plentiful, but it is less expensive, during the summer months. Therefore if you will estimate how much coal you will require during the winter, and its approximate cost at summer prices, if you will deposit a proportionate amount in a savings bank each pay day, then you will not only save money on your fuel bill, but you will earn interest on your deposits.

Many people who do not make reserves for these and other purposes are compelled to borrow money with which to meet these expenses. Sometimes the money is borrowed from loan sharks at terrible cost.

Look at the list of suggested reserve items above. None of them suggests putting money in a savings bank to save it, but, rather, to put the money in a bank to spend it during the following twelve months. This is the way we should look at all thrift, all savings. When we put money in a building and loan association, safe investments, or insurance, we are putting it there for the purpose of spending it, not

next year, but in the years to come, when we or our loved ones will need it more than now.

Aside from the advantage of having funds available when you need them, the funding of expenses in a savings bank will indicate the net amount of your earnings which is available for regular expenses from week to week. With this knowledge you are more likely to live within this net amount and you are also more likely to spend less than you earn.

CHAPTER VII

Personal Budgets and Expense Accounts

"No gain is more certain than that which proceeds from the economical use of what we have." . . .

—Latin Proverb.

A PERSONAL budget is a classified estimate of how one expects to spend one's income and an expense account is a record of one's actual expenses.

Both of these records are helpful adjuncts to any savings plan, especially for those who are methodically inclined. However, they are not absolutely necessary in order to save money, and those who do not enjoy keeping accounts need not feel that they cannot save as much money as those who record their expenses each day.

Since the primary object of a budget and expense account is the saving of money, why not budget how much you should save? Then after seeing to it that this amount is put into a savings institution the first thing each pay day, you may spend the remainder of your income as you please.

One advantage of keeping a record of expenses is that it will indicate where you are inclined to be a little extravagant and might result in increasing your savings.

Many people have started with enthusiasm on a

savings plan which included a budget and expense account, but before long, when they grew tired of keeping these records, they abandoned their whole savings plan. For such people the budget does more harm than good.

A savings-bank account provides an excellent method for combining a budget and expense record with your savings accounts (see Chapter VI). This plan is intended to take care of your unusual and fixed expenses such as insurance premiums, taxes, interest on mortgage, payments to reduce mortgage, painting your house, vacation fund, Christmas, presents and savings. If these items are provided for automatically, then you need not worry about the other smaller items of expense.

For those who want to budget their expenses, who want to know how they are spending their money and where their expenses might be curtailed, and for those who will not be bored by recording their expenses, the following rules are suggested:

1. Include enough under the item of savings so that eventually the income from these savings will provide for all other items on your budget.
2. Your expense classifications should be so broad and simple that there will be no questions as to where to post each item of expense. For example, here is a suggested list of the main classifications:

   Savings and life insurance
   Rent (or taxes, fire insurance, interest on mortgage and house repairs)
   Food

Clothing
Operating—fuel, water, gas, electricity, phone, laundry, household supplies
Doctor, medicine, dentist, hospital
Entertainment
Gifts, church, charity
Other expenses.

3. If articles are bought on credit, they should not be entered until they are paid for.
4. Do not consider too seriously the standard budget suggested by some banks and insurance companies. They are usually based on an average of how certain groups of people spend their money, whereas each individual in such groups may have a different idea from all other members of the group. Some people, in order to be happy and contented, must have a more pretentious home than others would require. Other people would not be happy if they were restricted to a given amount for clothing or for entertainment.

   You should decide for yourself what distribution of your income will give you the greatest satisfaction, taking into consideration that if your item of saving is not sufficient to accumulate a fund which will provide an income for you when you are no longer able to work, then the satisfaction you now enjoy in regard to spending money, will be only temporary.
5. If balancing your accounts at the end of each week or each month is so laborious that it affects your enthusiasm, do not try to do it. Record the expenditures which you can remem-

ber and continue long enough to get a picture of how you are spending your money and how much you should try to reduce certain items in order to add more to your savings, if necessary. You may then discontinue your expense records until your earnings are increased or until there is a material change in the cost of living.

Assume that a man earning $3,000 a year carefully prepares a budget which provides for saving $600. After recording all of his expenses he succeeds in meeting his budget and in saving the amount provided for. This is his net result, his profit for the year. What he spent for food, shelter, and clothing is interesting, but it does not add anything to his net result. The only item that counts is saving.

Assume another case of a man earning $3,000, who would be bored by the necessity of recording each item of expense, but who is determined to save $600. Instead of keeping a record of each item of expense, he simply deposits $50 each month in a savings institution and lives on the remainder of his salary. At the end of the year he too has saved $600. Now who is the better off? Both have saved 20 per cent of their income, but the other 80 per cent of the first man's income no doubt was spent quite differently from that of the second man.

Realizing the fact that some people are enthusiastic regarding the advantages of budgeting and recording their expenses, and that others would never save money if they had to keep a record of every cent they spend, the writer sent a questionnaire to several thousand salaried workers located in various parts of

the country. This was done for the purpose of determining, if possible, whether or not the people who budget and record their expenses are able to save more than those who simply budget their savings and spend the remainder of their income as they please.

Following is a summary of the replies received from those who reported any savings. It does not indicate the average savings of the group because only a few who are not saving anything answered the questions.

	Per cent of those reporting
Those who make a budget and keep a classified record of their expenses	23 per cent
Those who keep a classified record of expenses but do not try to estimate their expenses in advance	15 "
Those who neither budget nor keep a record of their expenses	62 "

Following is a list of the questions asked of those who budget and keep a record of their expenses. Also a partial list of replies:

1. Do your actual expenses and savings come reasonably close to your budget?

   Yes, ... 88 per cent
   No, and doubtful, ... 12 per cent

2. Do you think your budget enables you to save more than you would save without a budget?

   Yes, ... 77 per cent
   No, and doubtful, ... 23 per cent

3. How does your budget enable you to save more?

"By knowing what amount I must allow for living

expenses, I am not likely to spend more than I can afford for luxuries and amusements."

"It regulates the amount which can be spent for various items, thus insuring a balance for savings."

"I consider a budget the same as a plan or specification. It would be an expensive and unstable project to build without a plan."

"It helps to check expenditures not absolutely necessary."

"By forecasting in advance my expenses and setting up a dead line, I find that there is not as great a tendency to overstep my limit and make unnecessary purchases."

"I know exactly what I am doing in detail. Can readily review any item of expense and can arrange to meet any condition."

"Based on the expenses of the past year, a budget is made; and, knowing that it is possible to live within that budget, a greater effort is made to keep within it and thereby increase one's savings."

"It enables one to determine just where and when one has been wasteful or extravagant and thus enables one to cut down such expenditures in the future. There is also a satisfaction in keeping to a budget akin to that of keeping to a promise."

"We all strive to attain the ideal, although, possibly, never reaching it. I set a hard but practical ideal and play the game."

"It's lots of fun setting $75 as a mark for a certain item and work to keep within a $50 limit—result $25 saved."

"Before I had a budget I overspent for unnecessary things and was unable to save."

"By simply planning ahead and endeavoring to keep within the budget, there is a tendency to avoid excess luxuries because, in figuring a budget, luxuries usually are a small portion."

"By preventing me from buying that which I cannot afford. I can only tell what I can afford by a system of accounts, such as the budget."

"By keeping a record of expenses I am able to see where economy is possible, and so reduce my expenses to a minimum, thereby increasing my savings."

The following advantages claimed for the budget may be obtained by the proper use of a savings bank: (The funding plan outlined in Chapter VI is intended to be used for automatically creating a reserve which may be used for meeting unusual expenses.)

"It enables me to anticipate and prepare for bills which must be met."

"Warns me that an apparent bank balance, which might be used for luxuries, is needed to meet coming expense which I am funding."

"The planning of expenses to be met is the only real advantage I have experienced. Living within my means and keeping a savings account for surplus each week does the same thing as a budget. I have saved no more in proportion to my earnings than I did previously."

"By preparing for heavy expenses in advance, by setting aside savings regularly rather than spasmodically. By setting a goal to aim at."

"Budget provides definite times when payments are due, making them come at different and convenient times."

"I always have a picture of the payments which must be met. Coal is bought at spring prices. The chief value of the budget is its action as a brake to curb expenses."

"Large items of expense are apportioned over the entire

year and there is no wild scramble or worry when payments are due."

"It does not necessarily increase my saving, but does aid me in keeping track of my expense and thus enables me to meet my obligations on time."

The following replies seem to indicate that simply budgeting your *savings* is sufficient:

"My budget specifies amount to save, whereas, if I had no budget, I would save what was left at the end of each month."

"By the budget, a fixed amount is saved as the first consideration and the items of expense are budgeted accordingly."

"By budgeting, one does not count money really available which is set aside definitely as savings."

"I budget payments on my house, also payments on investments and insurance, in the same manner that I do living expenses (groceries, clothing, etc.). By keeping entire budget within my salary and then living up to budget, I am bound to have a substantial saving each year."

4. Is your budget based on your own experience or is it based on a published standard?

Own experience, ...	87 per cent
Standard, ...	1 " "
Both, ...	12 " "

Following is a list of the questions asked of those who keep a monthly classified record of their expenses, but do not prepare a budget in advance.

1. Do you think the recording of your expenses enables you to save more than you would save if you did not keep such a record?

Yes, ... 65 per cent
No, and doubtful, ... 35 per cent

2. If so, how does your record of expenses enable you to save more?

"The record shows up the various small items of expense which, in most cases, are unnecessary, but which amount to considerable over a long period of time."

"By knowing the actual cost of necessities (such as fuel, clothing, taxes, repairs on house, insurance, and interest on mortgage) I know how much should be saved."

"The periodic check-up shows those items which take too much money. The use of a little will power brings all items down to the desired minimum."

"Saving is accomplished (1) by the permanent visible record of small expenditures, thus enabling a not extraordinarily careful man to plug the small leaks which quickly mount up, and (2) by comparing the several items of expense, proportioning the outlay on each according to its importance in the plan of living."

"While it is doubtful whether I save more, I have been able to readjust expenses to meet a large and unexpected expense in practically supporting two young brothers. It shows that at least some money might have been saved in the past."

"It enables us to keep our expenses within the limits we have set, by making studies of our past performances, eliminating waste, and thereby, when possible, arriving at a greater profit from the salary received."

"Without such a record in black and white, it is so easy to spend money with a clear conscience. Money spent is soon forgotten unless a written record is left as a reminder."

"It acts as a governor to help curb unnecessary ex-

penses and gives me definite ideas of how my income is used, so that I can see if I am saving the proper portion."

"It tends to distribute expenses in such a manner that the entire value of the dollar is received in well-balanced living."

"The record shows where money is being spent inefficiently. By this I mean that it is just as important to spend a certain amount for charity, education, amusement, and the like, as it is to economize, if a person wishes to live a well-rounded life, and develop into a citizen who will be an asset to his community. If a person knows that a certain expenditure will stand out and cause a distortion in the expense account for that class of purchases, he is very likely to find, upon further consideration, that the purchase is not really as important as it seemed at first."

"By reducing expenditures on items appearing abnormal. Also enables me to make purchases in quantity by determining amounts needed from previous records."

"An accurate record of my previous expenses enables me to foresee my expenses for the next week, month, or year, and to arrange to meet them. I am never faced with the feeling of 'not knowing where my money goes.'"

3. What other value, if any, has your record of expenses?

"It made clear to me that expenses and savings are consistent in amount and, therefore, gave me courage to start the purchase of a home."

"I am able to determine in just what department of my expense record any abnormal (and many times, unnecessary) drain is occurring, and so can prevent any recurrence of such thoughtless expenditures."

"Training in accounting, in memory and in perseverance."

"It enables me to make a more accurate Income Tax Return."

"It shows a detailed list of personal property which would be very useful in case of fire in making claim for insurance."

"It gives me a record of the upkeep expenses of my home and of the additional amounts I am investing in the home."

"As my income increases, I am able to see how the additional amount is spent or saved. I am interested in this from an economic, as well as a personal, standpoint."

"I have a record of cost of such items as furniture and investment in home which will be valuable in case of sale."

Following is an analysis of the savings reported by those who returned the questionnaire properly filled out. By "savings" is meant the percentage of salary applied to the purchase of investments, life insurance, payments on house and other savings.

	Average of those reporting
Percentage of salary saved by those who budget and keep a record of their expenses	21.1 per cent
Percentage of salary saved by those who keep a classified record of expenses but do not prepare a budget in advance	19.6 "
Average percentage of salary saved by those who either budget or record their expenses	20.5 "
Percentage of salary saved by those who neither budget nor keep a record of their expenses	20.1 "

These results would seem to indicate that the budgeting and recording of one's personal expenses, although helpful and interesting to some, is not absolutely necessary and is not the only way to save. Sixty-two per cent of those who reported do

not budget nor record their expenses, nevertheless, their average savings are 20.1 per cent of their salaries, as compared with average savings of 20.5 per cent reported by those who budget or record their expenses or do both.

This should be encouraging to those who prefer to follow the effective plan of saving first and then spending the remainder of their salary as they please.

CHAPTER VIII

INVESTING SAVINGS WISELY

> "As to the use of his savings, I think it should be in about this order; first, he ought to have some margin of ready cash to meet the regular and unexpected demands of his family. The place to have it is in our well-managed savings banks. The second line of defense should be life insurance, and the third, ownership of a home. On these foundations he can then consider investment in government and other bonds and stocks of the well established companies that have proved their ability to survive several panics." . . .
>
> —SAMUEL REA
>
> President of Pennsylvania Railroad.

INVESTING your savings wisely means that they should be applied toward buying insurance or a home, or that they should be placed in a savings bank or building and loan association or should be invested in stocks or bonds of well-managed and prosperous concerns.

Money wisely invested is a constant worker; it works night and day, Sundays and holidays, and never takes a vacation or goes on a strike. It insures the investor against the time when he is unable to work.

The money you spend unnecessarily works for those who receive and invest it; that which you invest, works for you.

Savings Banks. In addition to using a savings bank for funding certain items of unusual fixed expenses, as indicated in a previous chapter, one should use a savings bank for accumulating small sums regularly until they amount to enough to meet emergencies, such as unemployment, sickness, operations or dental work. Funds in excess of those which might be required for such purposes should be invested to yield more than savings-bank interest.

When funds which have been deposited in a savings bank are urgently needed to meet an emergency, it is not always necessary or advisable to withdraw them. You should borrow the amount you need from the savings bank, giving the bank your pass book as collateral security on the note which the bank will require.

Having this note to meet, you are likely to save more to pay off the note than you would save without having this obligation, and, having met this obligation, you will have the satisfaction of knowing that your original savings are still intact and you may then continue to add to them.

This, of course, does not apply to the money which has been deposited in the savings bank for the purpose of funding certain fixed expenses, such as insurance, taxes, fuel, etc. When these expenses must be met, the funds which have been accumulated for these purposes should be withdrawn.

The rate of interest allowed on deposits by savings banks varies from 3 to 4½ per cent and the compounding of interest is monthly, quarterly, or semi-annually. Following is a table showing how $100 deposited in a savings bank, paying 4% interest

compounded quarterly, will grow, if no withdrawals are made:—

How Compound Interest Works at 4 Per Cent Compounded Quarterly

Period	Interest	Bank balance
		$100
3 months	$1.00	101
6 "	1.01	102.01
9 "	1.02	103.03
12 "	1.03	104.06
15 "	1.04	105.10
18 "	1.05	106.15
21 "	1.06	107.21
24 "	1.08	108.29
27 "	1.08	109.37
30 "	1.09	110.46
33 "	1.11	111.57
3 years	1.11	112.68
4 "	4.58	117.26
5 "	4.76	122.02
6 "	4.95	126.97
7 "	5.16	132.13
8 "	5.36	137.49
9 "	5.59	143.08

Regularity of deposit is the first rule for accumulating a bank account. You are fortunate, therefore, if your employer has an arrangement with a savings bank whereby, at your request, he will make deductions from your pay and deposit them for you. This relieves you of the necessity of going to the bank each pay day and it also enables you to automatically put your *savings away first*.

Your savings bank should be looked upon as a place where you can obtain good advice in regard to financial matters, such as buying investments, financ-

ing the purchase of a home, or borrowing money. Banks are no longer the cold, unapproachable institutions they used to be. Progressive banks are eager and ready at all times to serve their depositors and one should not hesitate to seek financial advice any more than one would hesitate to approach a merchant to buy an article of food or wearing apparel.

The same is true of other than savings banks. However, the national, state, and other commercial banks—where checking accounts are carried—usually require monthly balances of from $100 to $500 and no interest is allowed unless deposits exceed the required minimum balances.

Being able to pay your bills by check is a great convenience, and then, too, your paid checks, which are returned to you by the bank, act as receipts for such payments. Therefore, when your savings account has enabled you to get started on your road to financial independence, you should open a checking account and thus establish relations with another group of experts who are qualified to advise in regard to your financial problems.

Commercial banks are always ready to advise their depositors in regard to sound investments and in most cases will assist them in buying such investments. For example, if you want to buy a good sound bond worth $500, and if you can pay about $100 toward the purchase of this bond, your bank will buy the bond for you, lend you about $400 on it, and hold it as security on your $400 note. Then you can pay this note in monthly installments of about $50. In most cases the bank will prefer to

make a note payable in sixty or ninety days, but upon the payment of interest and as much of the principal as you can afford, the bank will renew the note for the balance. This process will be continued until the principal and interest are entirely paid.

This is an excellent plan for compounding the interest you receive on other investments. For example, assume that the interest and dividends received in various amounts on previous investments aggregate \$200, but that each item is too small to be invested. Assume, further, that you want to save \$400 of your salary. Adding your interest earnings of \$200 to your new savings of \$400 results in a total of \$600, which, if invested at the rate of \$50 a month under the above plan, will result in the interest on your previous investments being compounded. Your dividends and interest may then be deposited to the credit of your checking account, and the payments on your note may be made to the bank by check.

Investigate Before You Invest. When the investor puts his savings into the securities of some sound, productive, worthy enterprise, he gets his reward in the income from those securities and in the fact that he has helped the enterprise to give employment to more consumers and to produce more wealth. Every time a thoughtless man or woman puts money into some losing, wildcat dream or fake, he is sidetracking money for a time in non-production, when that money should be working in actual production giving jobs to workers and an income return to the investor.

If you do not know how to select a good sound in-

vestment, if you do not know how to investigate the financial standing, earning power, management, and future possibilities of a company issuing the security in which you are interested, then by all means *have your banker advise you or ask him to recommend some one whose business it is to know good investments.*

Here is what Frederick R. Fenton, Secretary Investment Bankers' Association of America, has to say on this subject:

Investigate the man, the firm or investment banking house that sells the security. Find out if it is an established, reputable house. Find out if it has an unimpeachable record for honesty. Find out if it is a capable, experienced house, wholly competent to judge security values and thus able to select sound investments for the different needs of different customers.

To investigate one or more investment securities is impracticable, if not impossible and downright unsafe, for the average investor. First, it requires a great deal of time, which the average man or woman cannot give from other occupations. Second, it is expensive to investigate accurately and it requires other facilities, such as expert accountants, special attorneys, engineers, and other specialists. Third, after all the necessary information has been gathered on a given security, it requires an experienced investment banker to weigh it accurately and determine the value of the security.

To make safe investments of the smallest to the largest sums, the services of a specialist are required. It is the investment banker's business to supply that service. He can advise dependably what investments to buy, whether it shall be life insurance, a savings account, a home, good bonds, or common or preferred stocks in

well-managed companies of good earning records. Usually he will advise bonds because high-class bonds are the best form of investment security yet devised by man.

In every profession, trade, and business there are organizations that work for the best and highest development of the calling. Men are known by the company they keep; so are bond houses and brokers. Find with what organizations your prospective dealer or broker is affiliated. Ask the banks, several of them. Keep on asking until you are satisfied. Ask any member of the Investment Bankers' Association of America. That is not difficult and in a short while the inexperienced investor will have gathered convincing information as to where he may go to learn the truth as to the safest and best way to invest money.

I do not mean to say that all members of any laudable, worthy association or league are 100 per cent pure, or that outside such organizations there are not most excellent and worthy concerns. But within the established, worthy business and vocational associations you will find almost always a preponderant number of the best, the most representative, and most reliable men or firms in the business. People lose money in investments very largely because they listen to frauds and bucketshop operators, or to honest, inexperienced persons. Go to an honest investment banker. He can and will tell you the truth. You will make money thereby.

The experienced and careful investor who is more interested in the safety of his principal than in the interest yield, usually has certain tests which he applies not only before he buys an investment, but he continues to apply these tests at regular intervals in order to determine whether the investment continues to be as sound as when he bought it.

Following is a partial list of these tests. If only a few of them are applied to each investment you buy, all questionable securities, all "get-rich-quick schemes" and "wildcat promotion schemes" will be eliminated. This is the primary object of these tests. They are not intended to give the impression that few securities are safe and must therefore be selected with extreme care. The soundness of our insurance companies and savings banks is based upon the safety of investments, and, since the investments of these two soundest institutions are greatly diversified, one should approach the legitimate investment market with confidence rather than with fear and trembling, provided one seeks competent advice.

Simple Tests for Inexperienced Investors.

1. How much would my bank lend on this security if it were offered as collateral?

This one test alone should eliminate all fake investments because banks do not lend money on questionable securities or securities regarding which they have no information. As a general rule banks have no information regarding fake stock-jobbing schemes because the promoters of such schemes know better than to submit their propositions to the scrutiny of a wise financier.

On good sound securities banks will lend from 75 per cent to 80 per cent of their market value to their depositors. Incidentally, this is another good argument for being a bank depositor.

2. How is the investment rated in Moody's or Poor's rating books or by similar authorities? Such investment manuals are usually available for reference at banks or brokers.

Moody's Manual uses the following symbols:

Aaa Aa	Highest grade
A Baa	Sound, but not highest grade
Ba B	Fair
Caa Ca C	Speculative

Generally speaking, the beginner who has no reserve and who must consider primarily the safety of his principal should buy nothing rated below A. Later, when the foundation of his investment structure has been built with the soundest investments, then he may consider some rated Baa.

3. Will it be easy for me to find a buyer for this investment in case I would wish to sell?

Beginners who do not have large sums readily available may find it necessary to sell investments to meet an emergency, or in case they wish to use their investment in financing the purchase of a home.

Ordinary emergencies should be met by borrowing on securities rather than selling them, for the simple reason that when you borrow from a bank and put up your investments as collateral, you are likely to save more to pay off that loan than you would save if you did not have the obligation.

If you wish to sell a security or borrow money on it, either can be done more readily if the security is listed on one of the larger stock exchanges. Another advantage in buying listed securities is that

the leading stock exchanges do not list so-called "wildcat" or "get-rich-quick" stocks.

4. Rate of Income.

Although an investor is anxious to obtain as high rate of interest as is consistent with safety, he should always have in mind that ordinarily the higher the interest yield the lower will be the safety of his investment. This test is by no means infallible, however; it is a good test to remember in order that one will be better satisfied with a more conservative yield.

5. Is the company issuing this investment old enough to have passed through several periods of business depression and did it successfully weather these periods, or is it a new and untried concern?

Some one must furnish the money for financing new ventures, but the investments of such concerns should be left to the wealthy or well-to-do who can afford to take a risk. The small investor should confine his investments to the securities of tried and going concerns whose records of past performances are easily available and the ability of whose management is reflected in those records.

6. What are the past performances of the company issuing this investment? Has the company an unbroken dividend record? Are the total earnings and net profits of the company increasing and is its relation of current assets to current liabilities at least 2 to 1?
7. How many times is the interest being earned on the company's bonds or what is the margin of earnings after dividends have been paid?

The greater the earnings in excess of interest and dividend requirements, the less likely the company will be to "pass" either of these payments in poor years.

Small investors among the salaried working class should beware of "bucket shops" and should not allow themselves to be tempted by alluring tales of large profits and quick returns. Beware of promoters who try to hurry you into buying shares in a new and untried concern with promises that the stock will increase in price next week or next month. Real bonanzas are not peddled from door to door.

Do not take the investment advertisements in newspapers and magazines too seriously. Some of the investments are all right for some people. However, newspapers cannot investigate each investment for which an advertisement is offered for publication, neither can they indicate in such advertisements who can afford to buy them and who should leave them alone.

The investment experts who answer inquiries in the leading newspapers and magazines usually give more reliable investment information than is sometimes contained in the advertisements in such publications.

CHAPTER IX

Reinvesting Dividends and Interest

"Remember that money is of a prolific generating nature. Money can beget money, and its offsprings can beget more, and so on. The more there is of it, the more it produces every turning, so that the profits rise quicker and quicker."

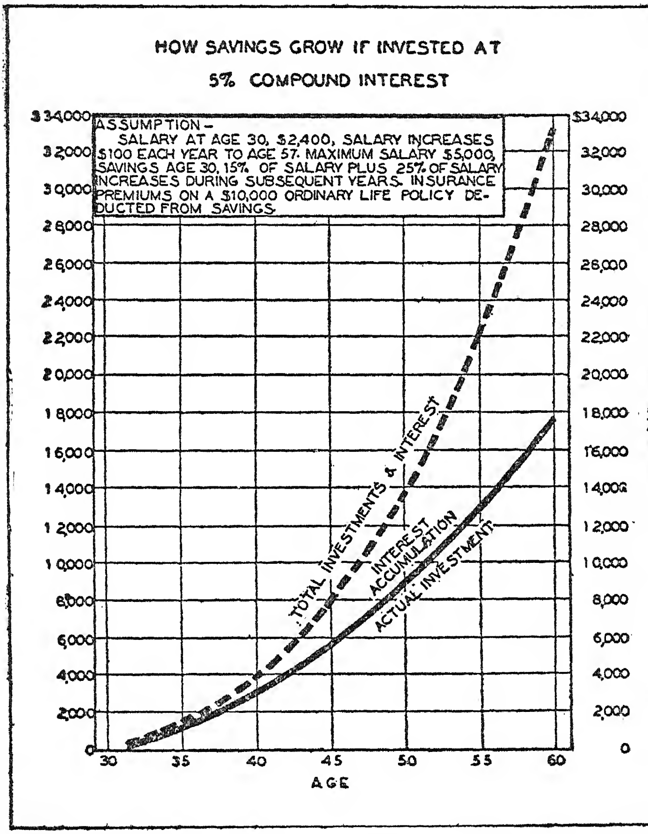
—Benjamin Franklin.

INSTEAD of spending the dividends and interest which your investments earn, you should re-invest these earnings in order to obtain compound interest.

There is no secret or mystery about the power of compound interest. It has none of the elements of "get-rich-quick" or other highly speculative schemes. Compound interest accumulation is simply a matter of mathematical progression, it is the oldest and surest method known for building a reserve fund and an independent income.

A good illustration of the effect of compound interest will be found in Chart 2, following page 44. You will note that although this man invested only \$127, or 5.3 per cent of his salary the first year, and never invested more than 18.3 per cent of his salary, his total investments over a period of thirty years amounted to \$17,439, whereas the interest on these

CHART 3.



investments amounted to $15,683. Therefore, 47.3 per cent of his estate of $33,122 is due to the power of compound interest of only 5 per cent.

Chart 3 is a graphic illustration of this point. The lower portion represents this man's actual investments and the upper portion shows how much the reinvestment of interest added to his investments.

The following table shows how much faster a given sum will double itself if the interest on this sum is reinvested; if the interest is compounded semi-annually:

Interest Per cent	Period in which invested money will double itself	
	Interest not invested	Interest invested
3	about 33 years	about 23 years
3½	29	20
4	25	18
4½	22	16
5	20	14
5½	18	13
6	17	12
7	14	10

Chart 4 shows the advisability of starting to save money as early in life as possible. If, for example, you would like to have $15,000 at age sixty, and if you start saving at age twenty-one, then you need to save only $10.51 each month. If you wait until you are thirty years of age before starting to save, then you must put away $18.12 each month in order to have $15,000 at age sixty.

Although this chart is helpful as an illustration of how small sums grow at compound interest, it is not suggested as a plan for getting ahead, for the reason that if you can save $10.51 at the age of twenty-one when you are just beginning on your business career, you should be able to save several times this amount when your earnings increase.

A better plan for determining the amount you should save each year is outlined in Chapter V, "How Much Should I Save?"

CHART 4.

HOW MUCH MONEY DO YOU WANT AT AGE SIXTY?

This table shows how much must be invested each month at your age at 5 per cent interest compounded semiannually in order to reach your goal.

Your present age	Amount desired at age sixty					
	$5,000	$10,000	$15,000	$20,000	$25,000	$50,000
20	$ 3.31	$ 6.61	$ 9.92	$ 13.23	$ 16.53	$ 33.07
21	3.50	7.01	10.51	14.01	17.51	35.03
22	3.71	7.42	11.14	14.85	18.56	37.12
23	3.94	7.87	11.81	15.75	19.68	39.36
24	4.18	8.35	12.53	16.70	20.88	41.76
25	4.43	8.87	13.30	17.73	22.16	44.33
26	4.71	9.42	14.13	18.84	23.55	47.09
27	5.01	10.01	15.02	20.02	25.03	50.06
28	5.32	10.65	15.97	21.30	26.62	53.25
29	5.67	11.34	17.01	22.67	28.34	56.69
30	6.04	12.08	18.12	24.16	30.20	60.40
31	6.44	12.88	19.33	25.77	32.21	64.42
32	6.88	13.75	20.63	27.51	34.39	68.77
33	7.35	14.70	22.05	29.40	36.75	73.50
34	7.86	15.73	23.59	31.46	39.32	78.64
35	8.43	16.85	25.28	33.70	42.13	84.26
36	9.04	18.08	27.12	36.16	45.20	90.40
37	9.71	19.43	29.14	38.86	48.57	97.14
38	10.46	20.91	31.37	41.83	52.28	104.57
39	11.28	22.55	33.83	45.11	56.38	112.77
40	12.19	24.37	36.56	48.75	60.93	121.86
42	14.33	28.67	43.00	57.34	71.67	143.35
44	17.06	34.12	51.18	68.24	85.30	170.59
46	20.61	41.21	61.82	82.43	103.04	206.07
48	25.39	50.78	76.17	101.57	126.96	253.92
50	32.16	64.31	96.47	128.62	160.78	321.55

The following table also shows how money accumulates if interest is compounded semi-annually:

HOW MONEY GROWS BY REGULAR MONTHLY DEPOSITS OF $5 ON THE FIRST OF EACH MONTH

Number of Years	Amount deposited	Amount if interest is invested at 5%
2	$ 120	$ 126.39
4	240	265.90
6	360	419.90
8	480	589.88
10	600	777.50
15	900	1,336.27
20	1,200	2,051.53
25	1,500	2,967.13

Assuming that you are thirty years of age and that a group of competent, reputable, and honest business men of your own selection would be willing to make the following agreement with you, would you be inclined to accept it?

Thirty years from date, when you will have reached age sixty, we agree to pay you $50 per month as long as you live and then $50 per month to your wife as long as she lives, and to continue these payments to your descendants to eternity, or at any time after you reach age sixty to pay to you, your wife, or your descendants a lump sum of $10,000 provided, that from now until the age of sixty you will agree to pay us only $10 per month.

Sounds like a mighty good proposition, does it not? Well, that is just the kind of a contract you are making when you carefully invest $10 per month for thirty years and reinvest your interest to yield 6 per

cent. At age sixty you will have $10,000 in investments or an income of $50 per month. If you accept the income and leave the principal, your wife or other dependents may later enjoy the income, or they may use the principal.

Ten dollars per month is only about $2.30 per week, or 33 cents per day. If that is too much for you to invest, try a smaller amount for the present and increase it when you can.

Now assume that a few years after entering into this contract this group of men would say to you:

> If you need some extra money at any time to meet an emergency, we will be glad to let you have it. All that we ask is that you pay back this loan from your savings in the future plus a small charge of 5 or 6 per cent for interest.

This sounds almost too good to be true, but it is just what happens when you own investments and borrow money on them at the bank. No need of your getting into the clutches of loan sharks, and the small banking interest you pay on such a loan need not worry you, because, while you are paying this interest, your investment is usually earning a greater interest for you.

CHAPTER X

IT PAYS TO PAY CASH

"Extravagance rots character; train your youth away from it. On the other hand the habit of saving money, while it stiffens the will, also brightens the energies. If you would be sure you are beginning right, begin to save." . . . —THEODORE ROOSEVELT.

ARTICLES purchased on the installment plan usually cost more than similar articles purchased for cash. Installment buying, therefore, reduces the purchasing power of our money; it results in our getting less for our money than if we pay cash.

We can afford to buy only a few items on the installment plan and we can afford these only because they increase our assets, because they provide for our future or the future of our families or reduce our expenses.

For example:

Our homes Life insurance Sound investments	These are forms of saving, not spending

Labor-saving devices—provided they reduce our expenses sufficiently to warrant buying them on the installment plan.

Consider for example, a case where a laundress is engaged one day each week at a cost of $3.60 a day. If, by buying a washing machine, the laundress is required one day every other week—because of the

time saved by the washing machine—then there would be a saving of $3.60 for twenty-six weeks, or $93.60 a year, which is a good return on an investment of $100 or $150 in the machine, even when taking into consideration depreciation and cost of operation.

Most automobiles, furniture, pianos, and other musical instruments are bought on the installment plan. Why? Because of the easy payments. But suppose we invest these easy payments for a while, suppose we save, and *then* buy, rather than buy and then *save to pay the installments.* What is the result? We obtain more for our money. We are able to take advantage of special sales when they occur and do not have to patronize partial-payment concerns. Such concerns must obtain a higher price for their merchandise to compensate them for carrying installment accounts and for the losses they incur because some people default in their payments.

If a buyer, after paying a number of installments on an article, finds that, due to some misfortune, he is unable to continue paying his installments, then the merchant must take back his merchandise and sell it to some one else. This costs money, and this cost must be borne by those who complete their installment contracts.

Anyone who buys on the "dollar down—dollar a week" plan is demonstrating the fact that he can save money. If he can spare the easy payments out of his salary, he can just as easily invest them. If he invests them, then, eventually he may pay cash for what he buys and save the difference between the cash price and the installment price.

Here is an actual example of the high cost of installment buying:

Installment price of a certain automobile.........	$1,943
Cash price (not including insurance).............	1,780
Difference..................................	$ 163
Installment payments	
One-third of installment price in advance........	$ 648
Twelve monthly payments of $108 each..........	1,295
	$1,943

Since the installment buyer owed the dealer $1,295 for only one month, and since this amount was reduced by the payment of subsequent installments of $108 each month, the buyer owed the dealer an average amount of about $702 for the period of twelve months.

For this average debt of $702, the dealer added $163 to the price of his machine, which is equivalent to an interest and service charge of about 23 per cent of the average debt.

Some automobile manufacturers who have organized their own financing corporations add only about 5 per cent to the cash price in order to obtain the installment price, not including insurance. This results in an interest and service charge of about 12 per cent to 13 per cent on the deferred payments instead of 23 per cent as shown in the above case.

Some may argue that the interest-earning value of the deferred payments should be taken into consideration. This is true in the comparatively few cases where the installment buyer has money invested. Instead of disposing of some investments and buying for cash, he may prefer to buy on the installment plan and not lose the interest on his

investments. Granting this argument, and assuming that he is earning 6 per cent on his investments, then the interest he might have earned on his deferred payments, in the above case, would aggregate only about $42.

Furthermore, if a man has investments, it is better in most cases for him to borrow on these investments and buy for cash. This point is more fully covered in Chapter XI.

It pays to pay cash. In the above case this installment buyer's purchasing power was reduced by $163. If he could have paid cash for the automobile, he would have had $163 to spend for something else; it might have been used to pay the running expenses of the automobile for several months.

Many other cases of the higher cost of installment buying have been called to the writer's attention. Here are some of them:

Installment price of washing machine		$159.50
Cash price		145.00
Difference		$ 14.50
Installment plan		
Cash payment	$ 19.50	
Balance in twelve monthly installments	140.00	$159.50

Since the average monthly balance of the debt is about $76, the additional payment of $14.50 is equivalent to an interest rate of 19.1 per cent.

Installment price of radio set		$ 50.00
Cash price		47.50
Difference		$ 2.50
Installment plan		
Cash payment	$ 20.00	
Balance in three monthly payments of $10 each	30.00	$ 50.00

Since the average amount of the deferred payments is $20, the additional charge of $2.50 is at the rate of 12.5 per cent interest for three months, which is equivalent to 50 per cent per annum.

There is no desire on the part of the writer to criticize the installment merchant or the various financing companies for the prices they charge under the installment plan. They must charge more because of the expense of collecting installments and taking back used merchandise, and the users of this plan must pay this cost.

There is no denying the fact that the installment plan has enabled a large percentage of our salaried workers to obtain more and better furniture, clothing, automobiles, and other things which have added to their comfort and pleasure. However, since they are apparently able to obtain and pay for these things in spite of the higher installment prices, it only indicates how much more they would be able to enjoy if they would only have the determination to *save,* and *then buy* rather than to *buy* and *then save* to pay installments.

There can be no objection to paying for anything in small weekly or monthly installments provided that in doing so you mortgage only a small part of your future earnings and are not required to pay more than you would if you bought for cash, plus a reasonable interest charge on the deferred payments. It is the abuse of the plan, the buying beyond one's means, and the price paid for the clerical and collection work, which makes the plan objectionable and prevents many salaried workers from getting ahead.

It has been estimated that there are more than

1,000 financing companies being supported by installment buyers. The amount they charge for discounting the notes of such buyers in order to pay the salaries of their officers and collectors and their other overhead expenses and dividends to stockholders represents the amount which the installment buyers might be using to better purpose if they would save and then buy, rather than buy and then save to pay installments. The millions of dollars which are required to support these financing companies not only reduce the buyers' purchasing power to that extent, but merchants and manufacturers also lose the sales which might result if these millions of dollars were not paid to the financing companies for their services.

It would seem that the best way to buy on the installment plan would be to borrow the money you need in order to buy your furniture, musical instruments, or automobile for cash, and then pay your *note* on the installment plan. In order to be able to do this, however, you must have a savings-bank account or some sound investments which a bank will accept as collateral to secure your note.

Some may wonder how they can obtain investments on which to borrow money to buy for cash. They should buy them on the installment plan because this gives them the same incentive and obligation to save money as buying merchandise on the installment plan. Most commercial banks and investment bankers will sell investments on the partial payment plan.

A comparison of the cost of buying merchandise on the installment plan and paying interest on bor-

rowed money in order to buy for cash will be found in the next chapter.

There has been much comment recently in the newspapers and magazines and among commercial organizations regarding the use and abuse of the installment plan of buying. Some authorities argue that it is economically sound, while others warn that it is a real menace.

In order to test the economic soundness of the plan; let us see what would happen if everybody used it. If everybody mortgaged his future earnings to buy things which immediately depreciate in value, if everybody spent all he earned and failed to create any reserve in the form of savings and investments, then the installment plan would fail. It would fail because there would be no funds with which to finance the financing companies. In other words, the savers are financing the installment buyers.

Now, consider the above suggestion that we put money in a savings bank or buy sound securities on the installment plan; that we borrow money on these savings, paying cash for what we buy and then pay off our loan on the installment plan. Is this plan economically sound? Of course it is, because everybody could use this plan without upsetting our financial structure.

If you have $1,000 invested, it is an indication that you have loaned that amount to some one who needed it at the time. Having this investment is like having a certificate of credit. It enables you to borrow from some one else and when you pay your loan on the installment plan you are simply reestablishing your credit.

Retail dealers' associations are beginning to complain that installment buyers, who are pestered into paying their installments promptly, allow their bills for groceries, hardware, and other necessities to run overdue or indefinitely. If this condition continues or grows worse, what will be the result? The merchants will be compelled to charge more for their merchandise in order to cover these losses. Therefore, the installment buyer, in addition to paying more for his luxuries under the installment plan, will also have to pay more for his necessities.

CHAPTER XI

When to Borrow Money to Get Ahead

"If you want to know whether you are going to be a success or not, you can easily find out. The test is simple and is infallible. Are you able to save money? If not, drop out; you will lose; you may think not, but you will lose sure as fate, for the seed of success is not in you." . . .
—James J. Hill.

THE most discouraging experiences of those who are trying to get ahead are the various setbacks in the form of emergencies, such as operations, sickness, accidents, and similar misfortunes.

Just at the time when you are about to reach your first $500, you happen to meet with one of these misfortunes, say an operation costing $150. You appreciate that this is one of the possible emergencies for which you have been saving money and it is a satisfaction to be able to meet it with your own funds. Nevertheless, it is discouraging to have this setback—to have only $350 left when you were so near the $500 mark, at which you have been aiming so long.

Instead of disposing of some of your investments or withdrawing a part of your funds from your savings account, there is a better and less discouraging way of financing these unusual expenses. If you have invested your money wisely, your bank will

lend you about 80 per cent of the market value of your securities. Although the bank will charge interest at the rate of about 6 per cent per annum for the use of their money, the interest which you will continue to receive on your collateral securities will usually pay the interest charged by the bank.

Having a note to meet at the bank is better than it sounds. You are likely to save more to pay off this note than you would save otherwise, and, having met this obligation, you will have the satisfaction of knowing that your original investments are still intact. True, there will be a pause in your savings while the note is being paid, but you will avoid the discouragement of a set-back. Besides, you will learn how to make use of your credit and, when other unusual expenses arise, you may use these same securities on which to borrow money to meet them.

Banks usually lend money only to their depositors, which is another good reason why you should have a checking account. Small loans are made for sixty or ninety days and larger loans are made for 180 days or longer. At the maturity date you are expected to pay the interest and as much of the principal as possible. If all of the principal cannot be paid, then it is customary for the bank to renew the note for the balance due. Some banks will make a note for 180 days and allow you to make monthly payments to reduce the principal, the interest to be figured on monthly balances and paid at maturity of note.

Some banks require that the interest be paid in advance. For example, if you borrow $300 for ninety days and the interest rate is 6 per cent per annum,

some banks will deduct the $4.50 interest in advance, giving you only $295.50 and taking your note for $300. Under this arrangement your actual interest rate will be about 6.3 per cent instead of 6 per cent. If in such cases a part or all of the note is paid before maturity, the bank should refund the excess interest paid.

In the previous chapter an effort was made to show how your purchasing power may be increased by buying for cash, rather than on the installment plan. This is also true even when you borrow money from a bank in order to buy for cash.

For example, let us again consider the case of an automobile purchased on the installment plan instead of for cash as outlined in the previous chapter.

If the buyer has investments on which he can borrow and pay cash, his savings will be as follows:

Installment price of automobile	$1,943
Cash price (not including insurance)	1,780
Difference	$ 163
Installment plan	
One-third of installment price in advance	$ 648
Twelve monthly payments of $108 each	1,295
	$1,943
Cash-payment plan	
Amount of cash available	$ 648
Amount borrowed from bank on collateral	1,132
	$1,780
Interest paid to bank, if note is paid at rate of $108 a month	$ 33
Excess interest and service under installment plan ($163 - $33)	130

You will note that if this automobile is bought on the installment plan, one-third of the installment price, or $648, must be paid in advance and the bal-

ance must be paid in monthly installments of $108 each.

On the other hand, let us say that this purchaser has saved money and that he has put it in a savings bank or in sound investments. Then he can borrow $1,132 from the bank, add this amount to the $648 required under the installment plan, and pay the cash price. By paying the bank the $108 each month, as would be required under the installment plan, the bank's total interest charge would be $33, a saving of $130. Thus, even when you borrow in order to pay cash, you can usually beat the installment price; you can get more for your money.

Most people who are getting ahead will agree that the most effective method is to have an obligation to meet. It may be a mortgage on your home, building and loan shares on which payment must be made each month, or life-insurance premiums.

Another excellent plan for accepting an obligation is to borrow money on your investments, buy more investments with the borrowed money, and then save to pay off your note at the bank. Some banks will buy an investment for you and hold it as collateral if you will advance about 20 per cent of the market price of the investment.

If you can arrange with your bank to pay off the loan in regular installments, you will earn interest on these payments as soon as they are made.

For example, assume that you buy a $500 investment yielding 6 per cent, that you make a cash payment of $100, borrow $400, from the bank and then pay $50 a month on your note. Following will be the result.

Bank's charge for interest:

Amount of loan	Interest 6 per cent
$400 for 1 month	$ 2.00
350 " " "	1.75
300 " " "	1.50
250 " " "	1.25
200 " " "	1.00
150 " " "	.75
100 " " "	.50
50 " " "	.25
	$ 9.00
Interest earned on investment for eight months	$ 20.00
Less interest paid to bank	9.00
Net interest earned eight months	$ 11.00
Average investment	$275.00
Interest yield eight months ($11 ÷ $275)	4 per cent
Annual interest basis (4 per cent ÷ ⅔)	6 per cent

Although, under this plan, you earn 6 per cent on your investment and pay the bank 6 per cent interest on your loan, you will really earn 6 per cent net on all the money you put into this investment.

When you sell an investment, you are killing the goose that will lay golden eggs for you each year. When you borrow on an investment you simply let some one hold the goose as security; you still get the golden eggs.

Here is another concrete example of how money saved and invested wisely saved more money for a man who used his investments to obtain a loan from his bank.

This man sent his daughter to a college where the tuition and other expenses were $1,000 a year. This could have been paid in two installments, *viz.*, $600 at the beginning of the term in September and $400 at January 1st. However, by paying $1,000 in Sep-

tember, a discount of 5 per cent was offered. Since \$600 had to be paid in September, the discount of \$50 which was offered for the payment of \$400 four months in advance of January 1st represented a saving of 12½ per cent for four months or at the rate of 37½ per cent per annum. In order to take advantage of this saving, \$400 was borrowed from a bank at only 6 per cent interest. The note was paid off at the rate of \$100 a month, which made the bank's interest charge only \$5.

The saving in this case was \$50, minus the bank's interest of \$5, or a net saving of \$45, simply because this man's investments gave him credit at the bank.

If the note had been paid at the rate of \$50 a month, then the bank's interest would have amounted to \$9 and his net saving would have been \$41.

Moreover, in the meantime this man was receiving interest on his investments, which more than covered the interest paid to the bank.

CHAPTER XII

Life Insurance

> "There is no argument against the taking of life insurance. It is established that the protection of one's family, or those near to him, is the one thing most to be desired and there is no medium of protection that is better than life insurance. Our government has given close attention to the insurance companies, and they are on so sure a foundation that it is in substance a guaranty method of protection of our people." . . .
>
> —Calvin Coolidge.

What Is Life Insurance? The Encyclopedia Britannica defines insurance as follows: "The provision made by a group of persons, each singly in danger of some loss (the incidence of which cannot be foreseen), that when such loss shall occur to any of them, it shall be distributed over the whole group."

Life insurance is a scientific method for bringing together the small contributions of many, for the mutual protection of each contributor or policyholder. These contributions are called premiums.

A man may have contributed for only a year or two, when, as a result of his death, his premiums will cease and his insurance will be paid to his dependents. The remaining policyholders, however, will continue to contribute enough in order that the insurance company will be reimbursed for this ap-

parent loss and will accumulate enough to pay all other claims as they arise.

The fund collected from policyholders is greatly augmented by the magic of compound interest otherwise the premiums would necessarily be much larger than they are.

Although nothing is more uncertain than the life of the individual there are few things more certain than the average life of a large group of people or the total combined lives of a large group of people; especially when allowance is made for the continued improvement in the mortality rate. The many years of experience of the insurance companies and the American Experiences Table of Mortality, therefore, enable the insurance companies to determine how much must be collected from people of various ages in order to accumulate a fund which, invested at compound interest, will be large enough to pay all claims when they come due and in addition to pay a proportionate share of the running expenses of the insurance company.

Why Buy Life Insurance? The direct benefit of life insurance to any individual is to change an uncertainty into a certainty. It transfers the hazard of his premature death or old-age dependency, to an organized group who will guarantee the fulfillment of any financial plans he may have for the future. Such plans may include the purchase of a home, the protection of his dependents until they are able to take care of themselves, educating his children, or independence during his own old age.

The most serious hindrance to providing a home, educating your children, and the financial independ-

ence of your family, is the uncertainty of life. Insurance is the only sure method of safeguarding whatever plans you may have for the future.

If you are buying a home your equity should be protected by insurance; if you have an excellent plan for saving and investing money, you may not live long enough to provide sufficiently for your dependents; therefore, insurance should be your first consideration in any thrift plan.

Following are only a few of the many other reasons for buying life insurance:

1. To provide sufficient funds to pay for your last illness, current bills, funeral expenses, outstanding notes, and inheritance taxes. Even if you prefer to put all of your savings in real estate, stocks and bonds and other investments, you can hardly afford to be without a so-called "clean-up" policy to meet these expenses which usually must be paid promptly.

If there are no funds available immediately to pay such expenses, then it will become necessary for the administrator of your estate to dispose of some investments or other property and, as is usual with forced sales, they might have to be made at a great sacrifice.

Here is where insurance comes to the rescue and turns another uncertainty into a certainty. This is one reason why men of wealth usually carry large amounts of life insurance.

2. To pay the mortgage on your home, otherwise your family may have to dispose of your home at a sacrifice in order to satisfy the mortgage.

3. To provide a monthly income sufficient for your

wife to give your children at least a high-school education.

4. To provide an income for yourself and family, in case of total and permanent disability. At a slightly increased premium most policies may be written to provide for the waiver of further premiums and a monthly income of $10 for each $1,000 of insurance in case of such disability prior to age sixty.

5. To provide for your wife after the children are able to provide for themselves, in order that she will not be dependent upon the children for support.

6. To provide for a cripple or invalid child or relative.

7. To provide a fund sufficient to guarantee the higher education of your children.

Some young men argue that they have no need for life insurance because they have no one dependent upon them. They fail to realize that the great majority of men have dependents later in life, if not a wife and children, then a mother or father or perhaps a sister or brother.

Take insurance while you can get it and when it is least expensive for you. If you wait until you have dependents, it may be too late, and besides it will cost more each year that you wait.

There are many men who would gladly buy life insurance if they could only get it. They waited when they were young and now cannot pass the required medical examination.

When you leave home for a few days, weeks, or months, it is your custom, no doubt, to leave enough money with your family to pay their expenses while

you are gone. You should make the necessary provisions for their care at a time when you might be called to make that last long trip, never to return.

Life insurance is a good teacher of thrift. Entering into a contract with an insurance company under which your premiums must be paid promptly, teaches you the habit of systematic saving. Payments fall due at regular intervals and whenever you are forgetful or dilatory, you are reminded of your obligations.

Different Kinds of Insurance Companies. There are three main groups of insurance companies:

1. Old line mutual companies.
2. Old line stock companies.
3. Assessment insurance societies.

The old line companies are also known as Legal Reserve Life Insurance Companies because the premiums they charge are fixed and are large enough to provide a sufficient reserve to assure the fulfillment of all contracts with policyholders.

1. The mutual companies are participating, which means that they pay back to the policyholders in the form of dividends a proportionate share of the difference between the amount collected in premiums and the actual cost of conducting the business.

The gross premium rates of the mutual companies are usually higher than the rates of stock companies; however, when the dividends are deducted, the net rates are likely to eventually be less than the rates of a stock company.

The mutual companies have no capital stock and

no stockholders; all of their profits are distributed in the form of dividends among the policyholders.

The excess gross premium of the mutual companies may be considered a margin of safety. If the cost of conducting their business increases, their dividends naturally decrease; on the other hand, if their expenses decrease, their dividends are increased.

2. Stock companies may issue either participating or non-participating policies. However, in either case all of the profits are not distributed among the policyholders because the stockholders must receive a reasonable return on their investments.

The premium rates of the non-participating companies are usually lower than those of the participating companies, during the early years that the policy is in force. But the dividends paid by the participating companies eventually result in reducing their net premiums until they are less than the non-participating rates.

Which policy will be the least expensive, the participating or non-participating, will therefore depend in each case upon how long the insured may live.

3. Assessment association is a term applied to life insurance organizations which, according to their charters and the insurance laws of the states in which they operate, are permitted to call upon their members for additional assessments in case the premium rates charged are inadequate to pay all death claims and expenses.

Assessment associations formerly based the assessments of their members on the number of death

claims arising or upon some other basis resulting in assessments which were less than the premiums charged by the old line companies. As the members of such associations grew older, however, and the number of death claims increased, the assessments naturally increased with the result that some of the older members could not afford to pay the increased premiums and allowed their policies to lapse.

The younger men in such associations also allowed their policies to lapse when they found that they could obtain lower assessment rates in some of the younger associations.

Some assessment associations, in addition to issuing regular assessment certificates, also issue policies on which the premium rates provide for minimum reserves based on the American Experience Table 3½% full level premium basis, the same as is used by old line companies. In such cases these reserves are usually held exclusively for the protection of level premium policy-holders.

The fact that many of the assessment associations are charging rates which provide for legal reserves and that others have reorganized as legal reserve companies seems to indicate that their premiums have been inadequate in the past.

Principal Forms of Insurance Policies. There are four principal forms of insurance policies as follows:

1. Term insurance.
2. Ordinary life.
3. Limited-payment life.
4. Endowment.

Each form is intended to serve a definite purpose:

therefore, before buying any insurance, the purpose of such insurance should be carefully considered and the policy selected accordingly.

Term Insurance.—Term policies are usually written for a period of five, ten, fifteen or twenty years, at the end of which period they are automatically canceled unless in the meantime they are converted to other forms of policies.

The insured pays a comparatively low premium each year during the period of the term policy, and, if he dies at any time during the period, the company pays the beneficiary the face value of the policy. However, during the period, and even if the insured lives to the end of such period, he is not entitled to any cash value, paid-up insurance, or extended insurance as provided for under the more permanent forms of policies.

Most insurance companies provide for converting a term policy to any other form of policy within a certain specified time prior to the end of the term. (This may be done without the insured taking another medical examination.) Following are the various conversion periods specified by some of the leading insurance companies:

	Term specified in policy			
	5 years	10 years	15 years	20 years
Conversion period in years	3, 4, 5	5, 7, 9	5, 7, 12	5, 7, 10, 15

Some companies write a term policy which is renewable each year or at the end of each five-, ten-, fifteen-, or twenty-year period. Some are renewable to age sixty and others to age sixty-five or seventy. The renewal rates in each case are based upon the

then attained age of the insured without taking another medical examination.

Some term policies may be converted to one of the more permanent forms of policies by payment of the difference between the premium on such policy and the new policy, together with interest thereon for the number of years that the term policy has been in force, thus obtaining the new insurance at the age originally specified in the term policy; or the new contract, to which the term policy is converted, may be taken at the present age of the insured without the payment of any back premiums or interest.

For most salaried workers, the latter plan is usually preferable.

The conversion privilege is a valuable provision because at the end of the term the insured might not be able to pass a medical examination and without this provision might be left without any insurance protection.

The principal advantage of a term policy is temporary protection at minimum cost or maximum insurance for a given premium.

The term policy may be used to advantage by a young married man who realizes the necessity of obtaining maximum protection, but whose present income will not permit of his buying, under other forms of policies, as much insurance as he needs. If his prospects of advancement are good, then he can take advantage of the lower rates under the term policy and as his income increases he may convert a part of his insurance to one of the more permanent forms without further medical examination.

Ordinary Life.—The ordinary life, or whole life,

policy, as it is sometimes called, is the least expensive form of permanent insurance. The company pays the beneficiary the face value of the policy upon the death of the insured. The insured continues to pay the same premium each year as long as he lives, unless his policy is in a participating company and he uses his dividends to reduce his premiums.

For example, the following average rates for several of the leading participating companies indicate to what extent the dividends have reduced premiums on policies issued in the past.

Premium per $1,000
Insurance at age thirty

First year	$22.84
Second year	18.15
Fifth year	17.47
Tenth year	16.58
Fifteenth year	15.58

If, instead of deducting the dividends from the premiums, the dividends are allowed to remain with the insurance company to accumulate at compound interest rates allowed by the company, then an ordinary life policy will become paid up in twenty to twenty-five years, depending upon the age of the insured.

If the insured prefers to use the dividends to reduce his premiums, even these reduced premiums may become burdensome as the insured grows older and has ceased earning money. If, at old age, insurance premiums become a burden, the insured may cease paying premiums and accept the cash value or a paid-up policy for less than the face value or take extended insurance for the full amount of the

face value for a temporary period, depending upon the number of premiums which have been paid.

The following table shows the value of these options at age sixty-five for a $1,000 ordinary life policy taken out at various ages in a participating company.

Issued at age	Values at Age Sixty-five of $1,000 Ordinary Life Policy			
	Cash value	Paid-up insurance	Extended insurance of $1,000	
			Years	Days
25	$570	$788	15	145
30	550	760	14	235
35	525	725	13	268
40	488	675	12	227
45	441	610	11	87
50	378	522	9	180
55	290	402	7	92

Limited-payment Life.—Under the limited-payment life policy, the insured pays premiums each year for a limited period, usually ten, fifteen, twenty, twenty-five, or thirty years, and at the expiration of the specified period the policy becomes paid up.

At the death of the insured, the company pays the beneficiary the face value of the policy and in case death occurs before all of the premiums have been paid, no further payments are required.

The payments under the limited-payment policy are expected to be fewer than under the ordinary life policy because the latter policy spreads the payments over one's anticipated lifetime, while the former policy concentrates them within a shorter period. The company must therefore collect larger

premiums under the former plan in order to accumulate the necessary funds with which to pay the claim.

For example, there follows a comparison of the average rates of several leading participating companies on $1,000 worth of insurance written at age thirty:

Ordinary life	$22.84
Fifteen-payment life	39.16
Twenty-payment life	32.42

If the insured dies before the end of the period specified in the limited-payment policy, he will have paid more for his insurance than necessary because he might have carried the same amount of insurance at less cost under the ordinary life policy.

For example, assume that a man thirty years old bought a $5,000 twenty-payment life policy in one of the participating companies and that he died at about age forty-nine. The total net premiums paid under this policy will have amounted to about $2,287, whereas he might have carried an ordinary life policy at a total cost of about $1,482. Obviously in this case he will have paid $805 more for his insurance than necessary. *If this amount had been saved and invested,* his dependents would have not only the $5,000 insurance, but the $805 plus interest.

If the insured lives longer than the period specified in a limited-payment policy, then, eventually, he will have paid less net premiums under this policy than if he had bought an ordinary life policy. This point is covered in more detail later in this chapter.

Following are some arguments in favor of the limited-payment policy, also some answers to these arguments. Both should be carefully considered.

1. Instead of paying for insurance during his entire lifetime, a man may confine these payments to a certain specified period.

Answer: A man should not object to paying insurance premiums during his lifetime *if he saves and invests the difference between the cost of a limited-payment life policy and an ordinary life policy,* because the interest on such investments will eventually amount to enough to cover these payments. That is exactly what the insurance companies do for the insured. They invest the difference in premiums and eventually the reserve accumulated in this way will result in the policy being paid up.

If a man has not learned how to save money and wisely invest it and if he prefers to limit the number of his premium payments, perhaps he would better buy a limited-payment policy or a long-term endowment policy, provided, however, that he will be able to carry sufficient insurance protection under these forms of policies.

2. Insurance can be paid for during a man's most productive period.

Answer: It is also during the early years of this period that his family needs maximum insurance protection, because his children have not yet become self-supporting. During this most productive period his expenses are usually greater than they will be later in life and he is perhaps buying a home and trying to accumulate a reserve in the form of sound investments.

Most salaried workers have not sufficient income to carry ample life-insurance protection under the

limited-payment plan, and at the same time provide the necessities of a growing family, buy a home, and save some money for emergencies and for old age. Many salaried workers who carry limited-payment policies are under-insured.

3. The larger premiums of the limited-payment policies result in larger cash or loan values.

Answer: If instead of buying insurance with the idea of borrowing money on his policy, a man would put his money in a savings bank, building and loan association, or in sound investments, he would be able to borrow more. When a man borrows money on an insurance policy it is equivalent to increasing the premium rate on the remainder of this policy until the loan is paid off. For example, if he has a $5,000 limited-payment policy on which, after fifteen years, he is paying a net premium of $100 (or $20 per $1,000), and if he borrows $2,000 on this policy, then from one point of view his premium rate on the remaining $3,000 of insurance will be equivalent to $33 per $1,000 during the period of the loan. Of course the insurance company does not increase his premium rate when he borrows on his policy. The man continues to pay the same premium that he would pay if no loan had been made; however, he has reduced the amount of his insurance protection by the amount of his loan.

The following is quoted from the annual statement of one of the leading mutual insurance companies:

Policy loans—Policyholders may borrow on their insurance policies when there are reserve values. The Committee wishes to issue a word of caution about this practice. A policyholder should not borrow on his

insurance contract excepting as a last resort. If anything happens to him before the loan is repaid, the life-insurance funds are diminished to the extent of the loan. The policyholder is, therefore, defeating the purpose of his life insurance and borrowing from his beneficiary. When policyholders find it necessary to avail themselves of the borrowing privilege, then by all means they should repay this money at the earliest possible date in order that their beneficiaries may not suffer.

If a man intends to surrender his policy in ten, fifteen, or twenty years and accept the cash value, then he had better buy term insurance and invest the difference between the cost of the term policy and the limited-payment policy.

This does not apply to a man who cannot save money except by paying insurance premiums. Such a man should by all means buy a limited-payment policy or an endowment policy.

4. If the limited payment policy is taken in a participating company and if the policy is paid up, the insured will continue to receive dividends as long as he lives.

Answer: The same will be true *if he invests the difference* between the ordinary life policy and the limited-payment policy in a savings bank, building and loan association, or in sound investments, or if he applies the difference to the payment of a mortgage. In the last case he will not receive interest, but he will save interest, which is just as good.

Endowment Insurance.—Under the endowment policy, the face value of the policy is payable to the insured at the end of a specified period, or the policy is payable at the death of the insured if this occurs

at any time prior to the expiration of the specified period. The premiums on this form of policy are payable each year of the endowment period.

The usual endowment period is twenty or thirty years; however, in some companies policies may be written for any term of years from ten to thirty, usually in multiples of five or as an endowment maturing at age sixty or sixty-five.

Since the period of an endowment policy is usually less than the life expectancy of the insured, the period for accumulating a sufficient amount to pay the face value of the policy in a specified time, is shorter than the anticipated period under the ordinary life policy. The insurance company must therefore collect a much larger premium under the endowment policy. The shorter the endowment period the greater the premium will be.

Following is a comparison of the average rates of several leading participating companies on $1,000 worth of insurance written at age thirty.

Ordinary life	$ 22.84
Ten-year endowment	104.66
Fifteen-year endowment	67.55
Twenty-year endowment	49.50
Twenty-five-year endowment	39.08
Endowment at sixty-five	27.43

Therefore, if a man can afford to pay a total premium of $228 at age thirty, he can obtain approximately the following amounts of insurance protection:

Ordinary life	$10,000
Ten-year endowment	2,178
Fifteen-year endowment	3,375
Twenty-year endowment	4,600
Twenty-five-year endowment	5,834
Endowment at sixty-five	8,300

If a person, who is insured under the endowment policy, dies before the end of the endowment period, he will have paid considerably more for his insurance than necessary. For example, if a man buys a $1,000 twenty-year-endowment policy, at age thirty, and if he dies at age forty-five, his total net premiums in one of the participating companies will have amounted to about $597, whereas under the ordinary life policy his total net premiums will have amounted to about $244. He will therefore have paid $353, or 144 per cent, more than necessary for his insurance, although his beneficiary will not receive any more insurance for the $597 paid for the endowment policy than she would receive if only $244 had been spent on an ordinary life policy. This, of course, is only one example; the difference may be greater or less in another company or if the comparison is made at other ages.

Obviously, the endowment policy is not the kind of a policy for the salaried worker who has dependents and with only a limited amount to spend for insurance protection.

According to the above table of rates, a man thirty years of age, who can afford to pay a premium of $228, may buy a $4,600 twenty-year-endowment policy which will be paid to him in twenty years, if he is still alive. Or he may buy a $10,000 ordinary life policy which in twenty years he may surrender for about $2,760, if at that time he no longer needs the insurance protection.

It would seem that, for the salaried worker with dependents, the latter is the more attractive propo-

sition because it provides $5,400 more insurance protection during the twenty years and only $1,840 less cash for himself at the end of the period, provided he is still alive and wants to exercise his option.

The endowment policy was never intended primarily for insurance protection; its principal advantage is the accumulation of a guaranteed sum of money during a definite period at the end of which time the insured hopes to still be alive. It contains more of the investment element than the other types of policies described above.

Young men, who have no dependents or who think they cannot or will not save and invest some money for their old age, should consider an endowment at age sixty-five. For a man twenty-five years of age this is equivalent to a forty-year endowment, and, due to the long term, the premium is only about 20 per cent greater for the first year than the ordinary life premium.

At age thirty the first premium on an endowment at age sixty-five is about 23 per cent greater than the ordinary life premium, and at age thirty-five it is about 29 per cent greater than the ordinary life premium.

However, by paying this larger premium or by getting a little less insurance for a given amount, the non-savers or those without dependents may better protect themselves against dependency in old age with an endowment at age sixty-five. The investment element of this policy provides a valuable accumulation of funds which may stand the policyholder in good stead at some future time.

How the excess cost of the endowment policy may be invested to accumulate a larger estate for one's dependents is outlined under "What Kind of a Life-insurance Policy to Buy."

How Much Insurance to Buy. Most insurance is bought for the purpose of at least partially replacing the earning power of the insured. If a man's income is $3,000 a year, if his personal expenses, insurance and savings amount to $1,000, then the present requirements of his family are $2,000, which is equivalent to 5 per cent on $40,000. In other words, it would require an estate of $40,000 to produce the net income which this man is now providing for his family.

When a man is killed or permanently disabled in an accident, it does not take very long for his dependents to figure his economic value in order to enter suit for damages. In most cases, however, these estimates of the value of a man to his dependents far exceed the amount of life insurance which he carried.

It should be the desire and ambition of every man to provide an estate which will replace his earning power as far as possible, in case he is taken from his family or other dependents. If he relies upon saving and investing, he may not live long enough to accumulate much property; he must have something which will guarantee a definite sum, regardless of how long he lives. This "something" is life insurance, because, as soon as he pays his first premium he has set up an estate which, in all cases, is larger than he would be able to accumulate in many years of saving.

The only method of creating an estate which cannot be interrupted by death is life insurance.

If a man spends all of his savings on insurance, then he will be unable to accumulate funds for a home, for emergencies, or for his old age, unless his insurance is under the endowment plan. If his insurance is under this plan, then he might not be able to carry enough for the protection of his family.

Each man must therefore decide what insurance protection he can afford to give his family and how much he can afford to invest toward a fund to provide for future necessities and emergencies.

It is surprising how many intelligent men seem to think that a life-insurance policy of from $3,000 to $5,000 is the extent of the estate which they are expected to leave to their families. Even if carefully invested at 6 per cent interest $10,000 will result in an income of only $600 a year, whereas the minimum amount required to meet the living expenses of a family might be $2,000 or $3,000. If instead of trying to live upon the income from an insurance estate, a family spends the principal, then an estate of $10,000, if spent at the rate of about $500 each three months, will last only about six years. Then what?

The ambition and plan of everyone should be to leave an estate which will be large enough to support one's dependents according to the standard of living to which they are accustomed. The length of time over which such protection should be provided will depend upon the conditions surrounding each individual case.

It will depend upon whether or not the bene-

ficiaries can engage in any gainful occupation and supplement their inheritance by their own earnings.

It will depend upon the age and health of the beneficiaries.

It will also depend upon the amount available for premiums, taking into consideration a normal standard of living, and how much should be applied to other thrift plans.

To determine the minimum protection which, under certain conditions, should be provided for a wife and young child, the following steps are suggested.

1. Make an estimate of the minimum amount your family would require each year to support them according to the standard to which they are accustomed. In making such an estimate, you should deduct from your income your personal expenses and the amount you are saving, including the amount you are now spending or expect to spend for insurance. For example, if your salary is $3,000, if your personal expenses are $500 and your savings and insurance premiums amount to $500, then the expenses of your family will be about $2,000.

2. From this amount should be deducted the income from your investments, which, let us say, are $200 a year, leaving $1,800 income to be provided by insurance.

3. Next estimate how long your family will need this income. Assume that you leave a wife and a child five years old, that for the first five years after your death your widow, in addition to giving the necessary attention to the child, would prepare her-

self for some gainful occupation. In order that the education of the child need not be neglected, it would seem desirable to supplement the widow's earnings to the extent of about $500 a year for another eight years, after which she and the child might be self-supporting.

4. The amount of income from insurance required in this case would be:

$1,800 for five years, or	$ 9,000
500 for eight years, or	4,000
	$13,000

Reference to an interest table and a slight computation will show that the capital sum necessary to be invested in sound 5 per cent bonds in order to furnish the above income for thirteen years is $10,500.

In other words, if $10,500 is invested at 5 per cent and if $900 is withdrawn each six months for five years and $250 is withdrawn each six months for eight years, then the entire $10,500 and interest earned on the balances will have been withdrawn.

5. Now assume that you are thirty-five years old; let us consider how much this $10,500 insurance will cost.

As a general rule the most satisfactory permanent insurance for a man who must consider obtaining maximum protection at minimum cost is the ordinary life policy with provisions for total and permanent disability.

A $10,500 policy of this kind taken at age thirty-five will cost about $300 for the first year.

Assume further that this is more than you can

afford to pay for insurance at this time, but that later, as you earn more, you will be able to pay more for insurance.

If at present your budget provides only about $230 for insurance, then you may meet this premium by buying a $5,500 policy on the ordinary life plan at a cost of $158 a year, and a $5,000 policy on the five-year convertible term plan at a cost of $72 a year, or a total premium of $230. In subsequent years this amount will be reduced by dividends.

6. Each year, as your salary is increased, you should convert a part of your term insurance; or all of it may be converted in five years to the ordinary life policy at age forty. This may be done without a medical examination. Since this plan provides for the widow earning a part of her expenses after five years and being entirely self-supporting after thirteen years, it would seem that $10,500 should be the minimum insurance protection in this particular case.

If protection is desired for a longer period than thirteen years, then additional insurance must be

SUMMARY

Salary		$ 3,000
Personal expenses	$500	
Savings and insurance	500	1,000
Expenses of family		2,000
Income from present investments		200
Necessary income from insurance		1,800
Income of $1,800 for five years		9,000
Income of $500 for eight years		4,000
		$13,000

Insurance required to produce this sum if amount received from insurance company is invested at 5 per cent interest	$10,500
Cost of $10,500 ordinary life policy	300
Cost of $5,500 ordinary life policy	158
Cost of $5,000 five-year convertible term policy	72
	$ 230

provided as earnings increase, unless, in the meantime, savings and investments are accumulated sufficiently to make further insurance protection unnecessary.

Following is a tabulation showing other estimates of insurance requirements, based on certain estimated salaries from each of which have been deducted estimates of the personal expenses of the insured and the amount he has been investing.

a	b	c	d	e	f	g
Estimated salary	Wage-earner's estimated personal expenses	Estimated savings, including insurance	Family's needs a – (b + c)	Approximate estate necessary to provide amount shown in Column d for number of years indicated		
				Five years	Ten years	Fifteen years
$1,800	$250	$180	$1,370	$ 6,000	$10,700	$14,300
2,400	300	300	1,800	8,000	14,000	18,800
3,000	350	450	2,200	9,600	17,000	23,000
3,600	375	650	2,575	11,000	20,000	27,000

Under the column headed Family Needs is shown, in each case, an estimate of the income which might be required by a family in order to enable it to maintain its accustomed standard of living.

These needs will vary, of course, with different families having the same incomes.

In the last three columns is shown the estate in the form of insurance or investments which would produce this required income for a period of five, ten, or fifteen years if invested at 5 per cent interest compounded semi-annually and, provided, that only one-half of the amount shown in Column D is withdrawn each six months.

By answering the following questions, you will be better able to estimate the amount of insurance or investment protection you should provide for your dependents:

What are your present financial obligations in the form of unpaid bills, notes, and other debts?

How much, in your opinion, should be provided for your last illness and funeral expenses?

What will be your family's inheritance taxes, administrator's and executor's fees?

What is the minimum income on which your family will be able to obtain its actual necessities and the comforts to which it is accustomed?

How long would your wife have to support your children until they have received sufficient education to enable them to be self-supporting?

If you do not want your wife to be dependent upon your children when they become self-supporting, have you provided an income for her which will enable her to be independent?

Have you provided for a college education for your children?

Will you leave your family a home or a mortgage;

in other words, have you bought insurance to pay off the mortgage after you are gone?

By answering these questions you will obtain an idea of how much insurance you should buy. Any good insurance counselor who knows how to render insurance service will tell you what kind of policies to buy in order to meet almost all of your desires at minimum cost. If you do not know such a counselor, ask one of the well-established old line companies to send one of their experts to see you.

Buy the policy which best fits your particular requirements, and, in order to further protect your plans in case your beneficiary dies, your policies should state definitely to whom payments shall then be made, when they shall begin, and the amount of the payments.

In specifying to whom payments shall be made, you should provide for several contingencies. For example, if payments are to be made to your wife, state who shall receive them at her death. If payments are to be made to your children, specify the amount for each child and when payments shall begin, also indicate what shall be done with the payments provided for your children in case any should die before receiving such payments.

An insurance policy when properly written is practically a will, with the exception that there are no fees or other expenses in connection with administering insurance payments.

What Kind of a Life-Insurance Policy to Buy. There are four principal forms of life-insurance policies. There are also many modifications and

combinations of these policies and each is intended for a definite purpose. When buying insurance it is advisable, therefore, to analyze your individual needs and choose your policies to fit these needs.

Most salaried workers should be more interested in how much protection they can buy for their dependents, rather than how much reserve they can create for themselves with the limited amount they can afford to spend for insurance.

Assume, for example, that a young man thirty years of age wants insurance protection for his wife and child, in case he should be taken from them before he has had time to accumulate an investment estate. Assume further that this young man has a good position, that his salary will be increased from year to year, and that later he will be able to spend more for insurance or investments. At present, however, he can afford to spend only $180 for insurance and he wants to know what kind of a policy to buy.

According to the published rates of one of the old line companies, we find that $180 will pay the first annual premium on the following amounts of insurance at age thirty:

Five-year convertible term	$16,100
Ordinary life	7,700
Twenty-payment life	5,400
Twenty-year endowment	3,600

With other companies these amounts may be more or less, depending upon their premium rates.

Ordinary Life and Five-year Convertible Term Plans. Upon carefully considering his insurance needs, this man estimates that the expenses of his widow will be about $2,000 a year and, in order to provide this amount until she can adjust herself to

the new conditions and be able to take up some gainful occupation, he must have at least $10,000 worth of insurance.

Obviously in this case, with only $180 to spend for insurance, he cannot consider either the twenty-payment life or the twenty-year endowment policy; in fact, even the ordinary life policy will not give him the protection he needs. He should therefore consider taking $5,000 on the ordinary life plan at a cost of about $116, at age thirty, and a $5,000 five-year convertible term policy, at a cost of about $56, or a total of $172 for the first year.

After five years of salary increases and as a result of dividends, this man should be able to convert his term policy to the ordinary life plan. His net premiums for the first seven years will be as follows:

First	$172	
Second	121	
Third	120	
Fourth	119	
Fifth	118	
Sixth	195	(Conversion period.)
Seventh	170	

If instead of converting the entire $5,000 term policy in five years he converts a part of it each year or as his salary is increased, then his premiums for the first six years will be more uniform and he will not experience the shock of paying $118 one year and $195 the next.

He may also consider taking advantage of the reduction in his premiums for the second year, due to dividends, by converting $2,000 or $3,000 of his term policy at the end of the first year. If he converts $2,000 of the term policy to ordinary life at the age

of thirty-one, then his total net premium for the second year will be about $153. If he converts $3,000 of his term policy, then his total net premium for the second year will be about $169.

The following charts show graphically a comparison of the accumulated net premiums which would be paid under different forms of policies if purchased at age thirty.

These charts are based on the present premium rates and the 1926 dividend scale of only one representative mutual life-insurance company.

Any change in the dividend scale would necessarily result in different curves from those given here. However, it is possible that the relation between the various curves would remain more or less constant even if the dividend rates were changed.

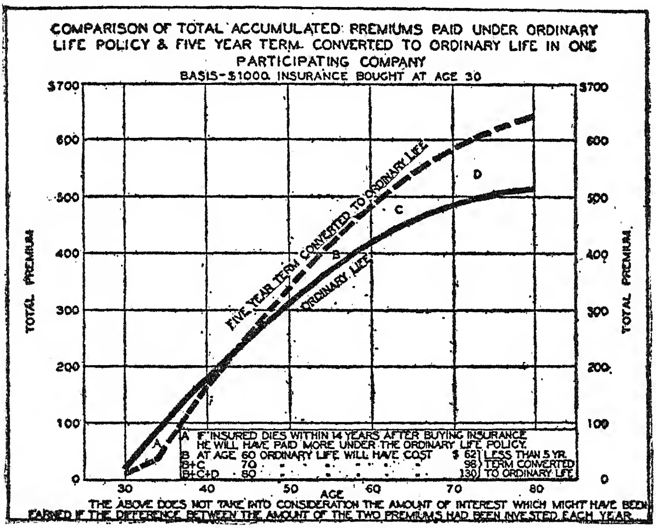
It is also possible that charts based on the accumulated net premiums on policies taken at other ages or in other companies would be quite different. These comparisons are made merely as a suggestion as to how one may compare various forms of policies over a period of years in order to determine at what point the total net premiums paid on different forms of policies would be the same.

Chart 5 shows the estimated total accumulated net premiums which a man would pay on a $1,000 policy from age thirty to age eighty under the ordinary life plan, and the five-year term converted to the ordinary life at age thirty-five in one of the old line companies, provided the interest, which he might earn if such premiums are invested, is not taken into consideration.

It will be noted that if the insured dies within

fourteen years or before age forty-five, his total accumulated insurance premiums will have cost less under the latter plan. If he lives to age sixty, he will have paid total premiums of only $62 more per $1,000 under the converted term policy. However, since he will be better able to pay a slightly higher premium as his earnings increase and since he needs

CHART 5.

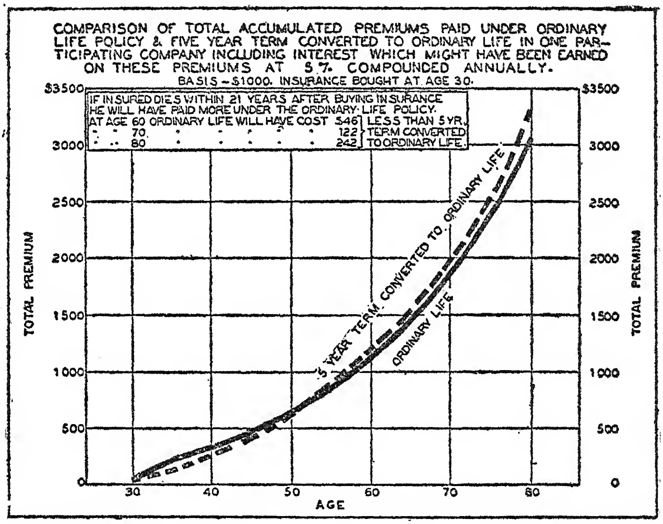


maximum protection at minimum cost during his early married life, he should not object to this excess in total net premiums during his later years. Furthermore, if he takes into consideration the interest which he might earn if his insurance premiums were invested each year at 5 per cent compounded annually, he will obtain the curves shown in Chart 6. This is the proper basis on which to compute the actual cost of life insurance, or any-

thing else, because every dollar spent might have earned interest if it had been invested.

It will be noted in Chart 6 that if the insured dies within twenty-one years, or before age fifty-one, his insurance premiums, plus the interest they might have earned, will have cost less under the five-year

CHART 6.



term policy converted to the ordinary life than if the policy had originally been taken on the ordinary life plan.

If he lives to age sixty, his premiums plus the interest they might have earned, will amount to only $46 less per thousand; under the ordinary life policy and at age seventy the ordinary life policy will have cost only $122 less per thousand than if

the policy had originally been taken on the five-year convertible term plan.

For the following reasons, therefore, it might seem advisable in some cases for a man to consider a convertible term policy to cover at least a part of his insurance needs rather than to wait until he can afford to buy more insurance under the permanent forms of policies.

1. The insured will be able to obtain maximum insurance at minimum cost at a time when the cost of other forms of policies might necessitate his being under-insured.

2. If he dies before age fifty-one, he will have obtained his insurance at a very low cost. If he lives to his expectancy and beyond, then his total cost will be only a trifle more than if the entire $10,000 had been taken under the ordinary life plan.

3. His premiums will be greater when his earnings are larger and when he can better afford to pay them.

4. If he will convert a part of his term insurance in two, three, or four years, rather than convert it all in five years, then there will be even less difference between his total accumulated premiums and the accumulated premiums under the ordinary life plan.

If, in the above case, a man finds that he can afford to spend only about $100 for life insurance and if he estimates that his insurance requirements are at least $10,000, then it will be necessary for him to take it all on the convertible term plan and convert a part of it each year as his salary is increased.

If he can afford to spend about $225 the first year, and if he feels reasonably sure that he needs only $10,000 worth of insurance, then it would be better for him to take it all on the ordinary life plan.

Comparison of Twenty-payment Life and Ordinary Life Plans. Now consider the twenty-payment life plan as compared with the ordinary life plan for a man who has a limited amount to spend for life insurance and who needs considerable insurance protection.

The principal argument for the limited-payment life policies is that one's insurance can be paid during the twenty or thirty years when one's earning power is greatest and then there will be no further payments to worry about in later years when one's earning power might have been reduced.

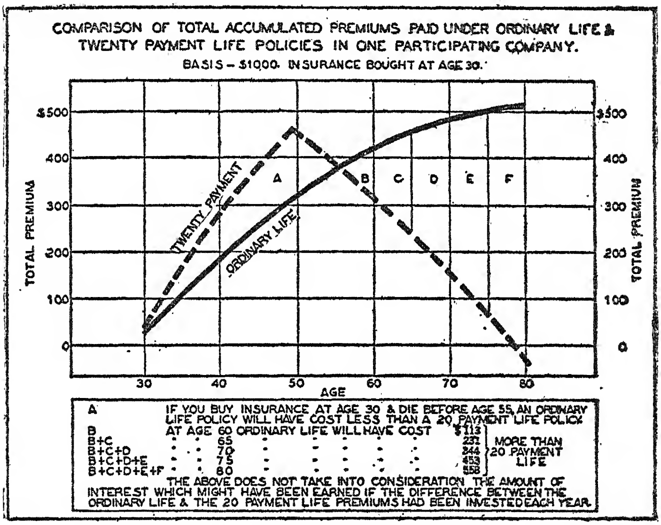
This might be an argument for those who can afford to pay the larger premiums on the twenty-payment life policy and still carry as much insurance as they should have. It has been the writer's observation, however, that most salaried workers who carry a twenty-payment life policy are underinsured.

Take, for example, the above case, which is typical of many salaried workers starting on a business career. If this man, thirty years old, with a wife and child, would spend $180 a year on a twenty-payment life policy, he could buy only about $5,400 worth of insurance, or only enough to support his wife and child for about three years, provided that $2,000 of the principal is withdrawn each year in monthly payments and the remainder is left with

the insurance company and allowed to draw interest at about 4½ per cent. Insurance companies usually guarantee only 3 or 3½ per cent interest; however, they pay more if and when they earn more.

To certain classes of workmen whose earning power is likely to decrease or cease after twenty or thirty years, the limited-payment life policy is very

CHART 7.



attractive, because it overcomes the objection to paying premiums throughout the entire life of the insured.

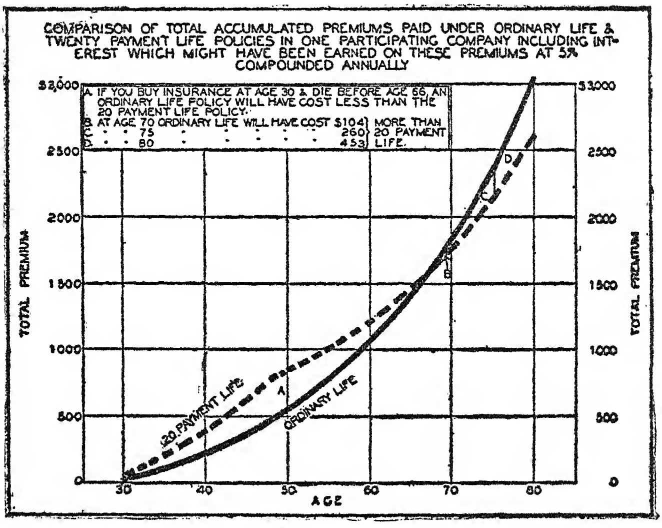
Whether or not the insured will pay more or less in net premiums under the twenty-payment life policy, as compared with the ordinary life policy, depends entirely upon how long the man may live.

Chart 7 shows the estimated total accumulated net

premiums on these two forms of policies if bought at age thirty in one of the representative participating companies and provided that the interest which these premiums might earn is disregarded.

It will be noted that, if the insured dies within the first twenty-five years after being insured or before age fifty-five, he will have paid less under the ordi-

CHART 8.



nary life plan, although his payments ceased in twenty years under the twenty-payment plan.

If he lives until age sixty, then for each $1,000 of insurance his total net premium over the thirty-year period will be $113 more under the ordinary life plan. At age sixty-five his total net premiums would be $231 per thousand more, and at age seventy $344 more under the ordinary life plan.

However, if he will take into consideration the interest which his premiums might earn if they were invested at only 5 per cent compounded annually, then he will obtain the curves shown in Chart 8.

You will note that in this chart the twenty-payment life policy is even less attractive than in the previous chart because his total premiums and interest value of such premiums would be less under the ordinary life plan up to about age sixty-six.

If the insured lives until age seventy the ordinary life policy will have cost $104 more per thousand than the twenty-payment life policy; at age seventy-five it will have cost $260 more.

Since the twenty-payment life policy does not seem to have any advantage, in so far as total net premiums and interest value of these premiums are concerned, until a man reaches old age, and since it has the disadvantage of not providing as much insurance for the same premium as either the ordinary life policy or the five-year convertible term policy, it would seem that the worker who needs maximum protection at minimum cost should not allow himself to be influenced too much by the limited number of payments or the greater cash value of the twenty-payment life policy.

In the above calculations, the writer has disregarded cash and loan values because here is considered only the man who buys insurance for the protection of his dependents. How much cash he could get in case his dependents no longer need insurance protection or predecease him would be purely incidental. The same is true of loan values,

because no one should borrow money on an insurance policy except as a last resort.

When a man who needs insurance for the protection of dependents wants a reserve on which he can borrow money, he might consider buying an ordinary life policy and putting the difference between the cost of such a policy and the cost of policies having larger loan values into a building and loan association or into good sound investments. He can then borrow from the building and loan, or on his investments, without reducing his insurance protection.

In other words, if a man is carrying a policy which has a large cash or loan value and if he borrows money on this policy, then, in case he dies before the loan has been paid, the insurance company will deduct the amount of the loan when the insurance is paid to his beneficiary. In this way the advantage to him of the loan value on his policy becomes a decided disadvantage to his beneficiary.

On the other hand, if the insured buys an ordinary life policy, which has a smaller loan value than either the limited payment life or the endowment policy, and if he will invest the difference between the premiums of the cheaper policies and the more expensive policies in a building and loan association or in sound investments, he will be creating his own cash reserve. He may borrow on this cash reserve without affecting the value of his insurance protection to his family. If he does not borrow on this building and loan or investment reserve fund, then at his death his family will receive not only his insurance in full, but they will also receive the reserve

which has been accumulated in the building and loan or other investments.

For example, assume that over a period of years the difference in the premium on an ordinary life policy and a limited-payment life policy, if invested at 5 per cent per annum, would amount to $200. Assume, further, that the cash value of the limited-payment life policy is $200 in excess of the ordinary life policy. This cash value will not function unless you borrow on your policy or surrender the policy; if you die, the cash value of your policy will not be paid to your dependents. If, however, you have created your own reserve of $200, then your dependents will obtain this amount in addition to the face value of your insurance.

When the cash reserve which you may create outside of the insurance company is large enough to produce sufficient interest to pay your insurance premiums, then your insurance will be practically paid up.

For example, if the difference between the net premiums on an ordinary life policy and a twenty-payment life policy, taken at thirty years of age, in one of the representative old line companies, is invested at 5 per cent interest compounded annually, then the fund accumulated in twenty years will amount to $271. Since the interest on this amount will be $13.55 and the net premium on the ordinary life policy will be only $12.51, it will be noted that, as long as this reserve fund is invested, the interest will pay the insurance premiums and therefore, the ordinary life policy will be practically paid up.

The foregoing suggestion in regard to saving and investing the difference between the cost of a limited-payment policy and an ordinary life policy does not apply to a man who is not absolutely sure that he can and will invest this difference. A man who will not invest this difference will perhaps be better satisfied in the future with a limited-payment policy or an endowment at age sixty-five because the larger cash value on such policies may be a real godsend during his old age, especially if he no longer needs insurance for the protection of his dependents.

When to Use Term Insurance. Let us assume that your family is sufficiently well protected by your present life insurance in case you live long enough to pay the mortgage on your home. However, if you are taken from them before your mortgage is paid, and if some of your life insurance would have to be used to pay this mortgage, then, perhaps, your insurance will not be sufficient to carry out your plans.

Under such circumstances a term policy is recommended for the period during which you expect to be able to pay your mortgage. Such a policy will not only protect your mortgage at minimum cost, but it will also protect your other insurance.

A mortgage is an obligation which some day must be paid. Where no insurance is provided for such purpose, it frequently results in a foreclosure and a sacrifice, due to a forced sale.

If you cannot afford to buy enough term insurance to pay off the mortgage in case of your death, then buy as much as you can in order to reduce your

wife's carrying charges on the home and increase her equity in this investment.

At your death the net value of your estate will be the difference between your assets and your liabilities; the difference between what you own and owe. For example, if you own your home valued at \$10,000, if you carry \$10,000 worth of insurance and your mortgage is \$7,500, then your estate as far as these items are concerned will be \$10,000 + \$10,000 − \$7,500, or \$12,500 net. If the mortgage must be paid, there will be only \$2,500 insurance left for other purposes. Whereas, an additional inexpensive term policy for \$7,500 would leave the \$10,000 intact for your family's protection.

If you are paying a part of the principal on your mortgage each year, then it would be well to have several smaller term policies which expire at about the same time that similar amounts are paid on the mortgage.

For example, if your mortgage is \$5,000 and if you are paying it off at the rate of about \$500 a year, it might be well to carry the following term policies:

Two —\$1,000, five-year convertible term policies
Three— 1,000, ten-year convertible term policies

After the mortgage has been reduced \$1,000, one of the five-year term policies may be allowed to lapse; after \$2,000 has been paid on the mortgage, the other five-year term policy may be allowed to lapse. Likewise the ten-year term policies may be lapsed unless in the meantime the insurance needs of the family have increased. In this case a part

of the term insurance may be converted to the ordinary life plan.

You might also consider buying five $1,000 yearly renewable term policies. Although the premium rate on such policies will increase each year, your total premiums will decrease as each $1,000 of insurance is allowed to lapse and the accumulated premiums over a period of ten years are likely to be slightly less under this form of policy.

COMPARISON OF PREMIUMS

Beginning at age thirty-five

Yrs.	Five-year term—Rate $8.93		Ten-year term—Rate $9.83		Total premiums five and ten year term	One-year term		
	Insurance	Premium	Insurance	Premium		Insurance	Rates	Premium
1	$2,000	$17.86	$3,000	$29.49	$ 47.35	$5,000	$ 8.65	$ 43.25
2	2,000	17.86	3,000	29.49	47.35	5,000	8.78	43.90
3	1,000	8.93	3,000	29.49	38.42	4,000	8.92	35.68
4	1,000	8.93	3,000	29.49	38.42	4,000	9.09	36.36
5			3,000	29.49	29.49	3,000	9.26	27.78
6			3,000	29.49	29.49	3,000	9.46	28.38
7			2,000	19.76	19.76	2,000	9.71	19.42
8			2,000	19.76	19.76	2,000	10.04	20.08
9			1,000	9.83	9.83	1,000	10.43	10.43
10			1,000	9.83	9.83	1,000	10.90	10.90
					$289.70			$276.18

Some insurance companies issue a combined policy and mortgage, which always provides just enough insurance to cover the balance due on the mortgage.

Take another case where a term policy might be considered. A father has an investment plan

which in fifteen years will accumulate sufficient funds for his child's college education. But what if the father does not live fifteen years? Who is to continue his investment after he is gone? Who is to guarantee his child's education under such circumstances? Here is where the inexpensive form of term insurance should be used to protect this father's plan during this period of fifteen years.

To make this protection even less expensive, the education fund may be protected by several policies, each for a different period—one for five years; another for ten years; and another for fifteen years.

Perhaps you are helping to support an aged father and mother and maybe the income from your estate would not be sufficient for your wife to continue giving this help. Here again a term policy may be used because of its small premium and because it is intended to cover a temporary need.

Comparison of Endowment Policy and Ordinary Life Policy. The principal advantage claimed for an endowment policy is that it enables one to create a reserve fund for one's own benefit.

Before deciding to use insurance for this purpose one should seriously consider how such a policy will affect the insurance protection which he should give to his family. If he finds, for example, that, for a given premium at his age, he can buy $10,000 worth of insurance under the ordinary life plan for the protection of his family and only $5,000 under the twenty-year endowment plan, and if the latter amount will not give adequate protection to his family, then he should consider whether it is more

important to adequately protect his family or to accumulate a reserve for himself.

Now, consider a man who has no family or other dependents, but is likely to have later in life; should he buy an endowment policy? That depends upon the man. If he has never saved any money and has no confidence in his ability to save, or if he has saved money, but has not been able to invest it successfully, then, perhaps, it would be well for him to use the compulsory saving plan provided by the endowment policy and benefit by the sound investment feature of such a policy. For this purpose the endowment at age sixty-five is especially attractive.

If, on the other hand, he knows how to save and wisely invest money, then he can buy insurance under the ordinary life plan and create his own cash reserve in building and loan shares or sound investments.

For example, if a man thirty years old can afford to spend $500 a year for insurance, this amount will buy about $10,000 worth of twenty-year endowment insurance.

If the difference between the cost of such an endowment policy and $10,000 worth of ordinary life insurance is invested at 5 per cent interest, compounded annually, then in twenty years this man will accumulate investments amounting to $7,465.

At the end of twenty years the following will be the results under the two plans.

20-year endowment policy.

Matured insurance........................	$10,000
No further insurance protection under this policy.	

Ordinary life policy.	
Insurance still in force	$10,000
Investments	7,465
Total	$17,465
or	
Cancel ordinary life insurance and accept cash value	$ 2,760
Investments	7,465
	$10,225

If this man marries during the twenty years, he will be fortunate to have taken the ordinary life policy because he will not only have the protection of the insurance at minimum cost, but he will also have the investment fund which may be used to buy a home.

Of this investment fund $2,500 may be set aside and the income from this amount, if invested at only 5 per cent interest, will pay the next premium on the $10,000 ordinary life policy and each succeeding year the net premiums will be less. Therefore, this policy will practically be paid up.

If, after twenty years, he has no dependents and if he would rather have the cash for his own use, he may cancel his ordinary life policy and accept the cash value of about $2,760, which, added to his investment fund of $7,465, will amount to more than he would have received from his $10,000 endowment policy.

If at any time it becomes necessary for him to borrow money, he may borrow on his investments instead of his insurance, thereby not reducing the amount of his insurance protection.

If the above computations were based on ages in

excess of thirty years, the investment accumulation would not be as large because the difference between the ordinary life and the endowment rates is less for older people. The difference is also less when the ordinary life is compared with the thirty-year endowment or the endowment at age sixty-five.

Following are the average differences in the premium rates for the first year on $1,000 ordinary life and twenty-year endowment for several representative participating companies:

	Excess of twenty-year endowment premium over ordinary life
Age thirty	$26.17
Age thirty-five	23.70
Age forty	20.93
Age forty-five	17.22
Age fifty	14.29

If a young man buys an endowment policy as an investment for his own old age and if he marries later and wants to convert his endowment policy to the ordinary life or limited payment, in order to obtain greater protection for his family, he cannot do so without another medical examination. If, for any reason, he cannot pass such examination, then he may find himself without sufficient insurance protection. Whereas, if he had taken the ordinary life policy and later decided to convert it to an endowment for himself, he could do so without an examination.

Premium Refunds — Dividends. The foregoing charts are based upon the assumption that the premium refunds or dividends are applied toward reducing the premium each year.

If a man can afford to carry all the insurance he needs without taking advantage of these dividends, and if he is not earning more than 4½ per cent or 5 per cent on his savings, he might consider leaving these dividends with the insurance company and letting them accumulate for one of the following purposes:

1. To convert an ordinary life policy to a paid-up policy. This may be done in about twenty to twenty-five years, depending upon the age of the insured at the time policy is written.

2. To convert an ordinary life policy to an endowment policy. This will require about twenty-eight to thirty-three years, depending upon the age of the insured.

3. To buy additional paid-up insurance each year.

4. To create a cash reserve on which the insurance company allows interest at the rate of from 4 to 5 per cent per annum, depending upon the company. Any part of this fund may be withdrawn at any time. In other words, these funds may be left on deposit and used in the same way that deposits in a savings bank or building and loan association might be used.

Salaried workers who are limited in regard to the amount they can invest in insurance should not select any of these options, especially if in doing so they are unable to carry as much insurance protection as they should. They should use their dividends preferably to reduce their premiums and thus be able to carry more insurance.

Actual Cost of Installment Premiums. Some insurance companies add 4 per cent to the annual premium and divide this sum by 2 to obtain the

semi-annual premium, or they add 6 per cent to the annual premium and divide this sum by 4 to obtain the quarterly premium.

For example:

Annual premium..................	$100
Semi-annual premium.............	104 ÷ 2 = $52.00
Quarterly premium................	106 ÷ 4 = 26.50

The excess of the semi-annual and quarterly premiums over the annual premium when figured on the above basis is equivalent to about 16 2-3 per cent on the deferred premiums.

Take for example the semi-annual basis. In the above example the first premium of $52 must be paid in advance when the policy is written.

Instead of paying the remainder of the $100 annual premium or $48, now, the insured may wait six months and then pay $52. The insured is therefore paying $4 for the use of $48, or 8 1-3 per cent interest for six months, which is equivalent to a rate of 16 2-3 per cent per annum.

In the case of the quarterly basis the insured would pay $26.50 in advance and would owe the company the difference between this amount and the annual premium as follows:

$73.50........................	for the first three months
$47.00........................	for the next three months
$20.50........................	for the last three months

This is equivalent to an average deferred payment of $35.25 for the year, for which the company charges $6, or 17 per cent, annual interest rate.

Annuities. If you fail to start saving early enough, or if for any other reason you reach old age with insufficient capital to produce the necessary

income to meet your expenses, you can materially increase your income by buying an annuity from an insurance company.

Annuities not only produce a larger income than is generally earned on good sound securities, but the income is sure to be paid as long as the annuitant lives. The operation of this method may best be illustrated by the following example.

Assume that a man reaches age sixty-five with investments worth $10,000, and that the cash value of his insurance is $4,000. Assume, further, that his wife is dead and his children no longer need his insurance protection or any other inheritance.

If he surrenders his insurance and accepts the cash value, the income from $14,000 will be about $700 or $840 per annum, if wisely invested to yield 5 per cent or 6 per cent interest. If this income is inadequate, then a single life annuity may be purchased with the $14,000 to yield an annual income of about $1,600.

This income will be paid as long as the man lives, even if he reaches ninety years of age; whereas if he invested $14,000 at 5 per cent and withdrew $1,600 each year, then he could be sure of this income only about twelve years, after which he might be a dependent.

If his wife is still living and if she is sixty-five years of age he could buy a joint and last-survivor annuity with his $14,000, which would produce an income of about $1,200 a year to both, or either of them, as long as they live.

An annuity may also be purchased by a widow

whose inheritance is not large enough to give her sufficient income as long as she may live.

Many people object to annuities because of the possibility of their dying a few years after buying the annuity, thus paying dearly for the small income received. For example, if in the above case the man dies two years after buying an annuity, his income of $1,600 for this length of time will have cost him $7,000 a year.

To avoid this possibility, a form of annuity may be obtained which guarantees that a certain number of payments shall be made, or that enough payments shall be made, by the insurance company, to return the full amount of capital invested by the annuitant, regardless of whether he is still alive or not.

These modified forms of annuity do not provide as much income as the single life annuity.

Insuring Your Insurance. If your estate is small, it is especially advisable to have your insurance paid on the guaranteed fixed income basis because of the great danger of a small estate being dissipated in an effort to increase its income through "get-rich-quick" methods. For example, if a widow is left with $10,000 insurance, on which the income is only about $600 per year, the false promises of enormous profits which are made by fraudulent promoters is more likely to appeal to her than to a widow with more ample income.

Where provisions are made for paying insurance to your beneficiary on the guaranteed fixed income basis, there is usually a further provision as to who should receive these payments in case the beneficiary has died before the insured. Where such provisions

are not made, the insurance fund reverts to the estate and is subject to taxes.

At the request of the insured, an insurance policy may be prepared in such a way that it is practically a will, in so far as the insurance fund is concerned. It may, and should, specify to whom, when, and how the fund should be paid, in case your beneficiary or beneficiaries should predecease you or die before the fund has been entirely paid.

In other words, it should be practically a fund held in trust by the insurance company to be disposed of as you intended when the policy was applied for or as it was later changed to meet new conditions.

Unless your wife has had considerable experience in investing money, unless she is capable of selecting sound securities and unless you are sure that she cannot be influenced by unscrupulous people who prey upon widows with a little money to invest, it is the best and most sensible plan to provide for the payment of your insurance fund on the fixed income basis.

It is your duty to provide an income which will take the place of your income. While you were working, your salary was not paid years in advance; you received your earnings weekly or monthly and you based your living expenses on this regular income. If business concerns would adopt the policy of paying their employees ten years in advance, the chances are that after a few years a large percentage of the people would not have enough left to provide for their actual expenses.

That is exactly what happens to most people when they inherit larger sums of money than they are

accustomed to handle; they seem to have an idea that they will never be able to spend it all, and in a short time they are no better off than if they had not inherited a dollar.

I know of a case where a provident husband and father, through thrift and wise spending, was able to leave an estate large enough to support his wife and children as long as they live. I have seen this estate dissipated within four or five years, with the result that the children, being unable to finish their education, had to go to work and each help to support the mother.

The fault in this case was at least partly, the father's. He blundered in two respects; first, he failed to teach his family the principles of thrift and wise spending and, second, he failed to tie up his estate in such a manner that it would do his family the greatest good over a long period of time.

I know of numerous other cases where the children of the insured, though grown and self-supporting, had very poor judgment about business and investments. However, they persuaded the mother to allow them to increase her income by setting them up in a business of their own or investing her money in some get-rich-quick scheme. In such cases the mother usually finds herself dependent upon others for support.

These cases are not exaggerated; they cannot be exaggerated, because they are more serious than words can express.

The insurance companies, realizing this objection to lump-sum settlements of insurance policies, have provided the fixed income plan as the logical means

of replacing the earnings of the husband or father after he is gone.

Such income arrangements are available to old policyholders, as well as new. They may be made payable annually, semi-annually, quarterly, or, monthly and, as the fund remaining with the insurance company is drawing interest, this accumulation will add to the insurance fund and make it last longer. Besides, it would be difficult to find a more secure form of investment.

If the insurance fund is large enough to earn sufficient interest, then the insured may direct that only the interest be paid during the life of a certain beneficiary. Or he may direct that the principal and interest be paid at regular periods and in specified amounts.

Following are samples of optional treatment which might be applied to the income plan:

1. Monthly interest or a definite amount of principal, payable to wife during her lifetime.

2. After death of wife, monthly payment of the same or a different amount to each child.

3. When youngest child attains age thirty, principal distributed among children, share and share alike in a certain specified number of payments.

4. If any child dies before all installments have been paid, the remaining installments to be paid to the estate of such child.

Insurance companies have standard forms of optional treatment which are commonly used under the income settlement plan. These forms usually provide settlements which will meet the needs of most cases. However, the insured is not confined to

these standards, or any combination of them, but he may specify any mode of settlement he may desire, provided it is within the law governing such settlements.

If you have bought insurance, or contemplate buying insurance, just consider what you would do with an amount equal to the face value of your policies. How would you invest it? Ask your wife how she would invest it and to whom she would go for advice. Suggest that she choose her investment now and, after a thorough investigation, you may see the risk you are running in forcing this responsibility upon her.

In order to determine what kind of propositions might be made to widows who have insurance funds to invest, certain insurance companies have placed blind advertisements in papers reading something like this: "Widow has $10,000 to invest in a good, sound concern where her principal will be secure and where her income will be regular."

Most of the replies to these advertisements were from highly speculative concerns, some promising returns of 100 per cent per annum, others promising independence for life, and only a few which might be considered safe investments for a trust fund.

Who knows but that similar offers will be made to your wife when the announcement of your death appears in the papers? If she has not had experience or training in the investment market, isn't she likely to make a mistake?

Another plan, which should be considered in preference to having your insurance paid to your wife in full, is to arrange with the insurance company to

have your policy payable to a trust company, as trustee.

In order to do this it will be necessary for you to have a lawyer prepare an agreement between you and a trust company, authorizing them to accept the insurance fund and to distribute it according to your written instructions.

Under such a plan, your insurance will be invested in only such securities as are legal for trust funds and your wife will receive interest on only the particular investments which were purchased for her. This interest may be more or less than the interest which might be paid by the insurance company.

The interest paid by the insurance company is based on the income from all of their investments, and, although a small percentage of their investments may turn out badly, this small loss would have little effect upon the company's average earnings. However, if the interest on the particular bond or mortgage which the trust company might purchase for your wife is not paid for an indefinite period, then your wife and not the trust company would lose.

Although the gross earnings on investments made by a trust company might be greater than the guaranteed interest of an insurance company, the trust company makes a charge for their services. The net payments to your wife may therefore be less under the trust company plan.

The principal advantage in creating a life-insurance trust is that the trust company may be given discretionary powers. It may be authorized to change the income to your beneficiaries to meet any

emergencies which might arise or to meet changing conditions, whereas the insurance company will follow absolutely the terms of your contract.

If, for any reason, you prefer to have your insurance paid to your wife in one lump sum, you should at least urge her to place the money in a bank, and before buying any investment, to ask her banker how much he is willing to lend on it. If he is unwilling to lend from 70 to 80 per cent of its market value, then she should not buy it at any price.

Tell your wife that her first consideration, in investing her insurance fund, should be the safety of the principal, regardless of the income.

Before doing this, however, the writer suggests that you read what Professor Griffin M. Lovelace has to say on this subject in his book entitled *The House of Protection.*[1]

Insurance for Women. As a general rule life insurance is bought by men for the protection of women and children, and since women are usually the beneficiaries of life insurance they have learned from actual experience the benefits of such protection.

Widows who have been able to raise and educate their children as a result of insurance know its value because of the great benefit it has been to them. On the other hand, women who have been left without insurance or similar protection know the handicap under which they are laboring in holding the family together and properly educating the children.

Every woman wage-earner who is taking a father's place in a home or who has others dependent upon

[1] Published by Harper & Brothers.

her should, therefore, seriously consider everything that has been said in this chapter on life insurance. For her, sufficient life insurance is just as indispensable as it is for a man with dependents.

Many women wage-earners assume obligations which they expect to be able to pay off if they live. Life insurance is the one sure method of paying these debts if they should die before they have paid them.

CHAPTER XIII

Owning Your Home

GOVERNMENT statistics show that almost 50 per cent of the families in the United States own their homes. Doubtless many of the renters would also be home owners if they had the necessary savings to make their first cash payment. It would seem, therefore, that most of the people in the United States desire to own their homes.

This is as it should be, especially for those who are trying to get ahead. Home owning promotes thrift because in most cases it compels systematic saving and offers the most tangible incentive for saving.

Most people who are getting ahead claim it is due to the fact that they always have some financial obligation which must be met at regular intervals. This is an excellent plan to follow and the buying of a home provides such a plan because mortgage payments must be made in specific amounts and at regular intervals.

Many people who have completed the payments on their homes and have learned the advantage of compulsory saving have continued to assume other financial obligations, such as buying investments on the installment plan.

There are some who argue that, in so far as future

expenses for shelter are concerned, there is no advantage in owning your home. Whether or not this is true depends largely upon the amount of care you exercise in the selection of your home, its location, and the price you pay for it. A prospective home owner should not only be interested in merely buying a house which he can call his own, but he should also be certain that he is buying a good investment and that his carrying charges, such as interest, taxes, depreciation, and repairs, will not aggregate more than his rent would be on a similar home. He should be sure that his carrying charges will not be more than he can afford to pay for shelter.

A home owner, who enjoys working around his home during his leisure time and who is handy with tools, can save considerable money, whereas the renter pays a certain amount for repairs whether he does the work himself or has his landlord do it. Some home owners do most of their painting, decorating, plumbing, and repair work during their odd moments, thereby reducing their carrying charges.

There are many other advantages in being a home owner. There are also some disadvantages. Much has been said and published regarding both sides of the question and little would be accomplished by prolonging the discussion here. Those who bought in a good location at a fair price, whose property has increased in value, and whose carrying charges are easily met, are usually on the affirmative side of the argument, while those who bought a home which is more expensive than they can afford, whose property has depreciated in value, due to its location, whose carrying charges are a real burden, and who

could rent a similar house for less than their carrying charges, are on the negative side.

The most important consideration of a prospective home owner should be—what will my actual carrying charges be and can I afford them?

In order to assist those who would like to estimate the various items of expense which go to make up the carrying charges on the home they contemplate buying, the writer obtained reports from a number of present home owners showing their actual experiences in connection with owning their homes. From these reports the following table was prepared:

AVERAGE CARRYING CHARGES ON HOMES REPORTED BY PRESENT OWNERS IN VARIOUS LOCATIONS

	Per cent of total value of house and lot
Interest on investment	6.18
Taxes	1.18
	Per cent of value of house only
Depreciation	2.44
Insurance	.21
Painting—outside	.63
Plumbing	.17
Decorating	.46
Reroofing	.34

This study does not take into consideration the amount paid toward reducing the principal, or, in other words, amortizing the mortgage. Neither does it include charges for water, because, in many places, the tenant pays the water tax. Special assessments are also eliminated because, in most cases, they increase the value of the property rather than the carrying charges.

Here is a suggestion as to how these figures may be used to determine the approximate carrying charges on the home you may contemplate buying:

Importance of Knowing the Present Market Value. Before you buy be sure of the present value of the property. This may be checked by consulting the records in the tax collector's office, taking into consideration the taxable value as compared with the estimated real value in your community.

Then ask a banker and a building and loan association how much they will lend on a first mortgage on this property. Ask each of them on what percentage of their appraised value of the property their loan would be based. If the bank places its loans on a basis of 50 per cent of the value and is willing to take a first mortgage of $5,000, then you may know that the bank considers the property worth about $10,000. If the building and loan association will lend up to 70 per cent of the appraised value and is willing to lend $7,000, then you may know that the association also considers the property worth about $10,000.

In some cases it might be well to have the property appraised by a disinterested builder or contractor.

Assuming the following:

Value of house	$ 7,500
Value of lot	2,500
Total value	$10,000

Then the estimated annual carrying charges should be determined as follows:

Items on Which the Percentages Are Applied to Total Investment.

Interest on Investment.—Interest should be charged on the total value of the property, regardless of whether you have a mortgage or not, and regardless of whether any payments have been made on the mortgage.

There are some who argue that as payments are made to reduce a mortgage, your carrying charges are reduced, because of the interest charge being less. This, of course, is a fallacy, because, when you reduce your mortgage you increase your investment, and although you may have less interest to pay on your mortgage you are losing the interest which you might be earning on the mortgage payments.

The average rate of interest reported by some present home owners was 6.18 per cent. Assuming that the rate on your mortgage would be 6 per cent, then the interest on your investment would be 6 per cent of the total value of the property, $10,000, or $600 per annum, regardless of the amount of your mortgage.

Taxes.—By visiting the tax collector's office it will be possible to determine the amount of the taxes on the property you contemplate buying. Or for the purpose of estimating the taxes, you may use the average of 1.18 per cent reported by some present home owners, making the estimate for this item of expense 1.18 per cent of $10,000, or $118.

Items on Which the Percentages Are Applied to Investment in House Only.

Depreciation.—Over a period of years some properties depreciate in value regardless of how well they

are kept in repair, depreciation being due to obsolescence as well as to wear and tear. During the past ten years the increase in property values has been so great that many home owners do not think that any allowance should be made for depreciation. However, since it is impossible to determine how long the present increasing values will continue, it would seem advisable to anticipate some depreciation. The average depreciation recommended by those reporting their own experience is 2.44 per cent of the value of the house, or, in this case, $183.

Insurance.—Any insurance agent can give you the actual cost of insurance per hundred dollars in the particular locality where you contemplate buying. The average reported is .21 per cent, or on a valuation of $7,500, this item will cost approximately $15.75.

Painting.—When you buy a home you should take into consideration that at least every five years the home must be painted in order to avoid excessive depreciation. To meet this item of expense some present home owners report that .63 per cent of the value of the house is set aside annually, which in this case is $47.25.

Plumbing.—For only repairs .17 per cent of $7,500, or $12.75.

Decorating.—Many reported that they do their own decorating and that the expense reported by them for this item covered the cost of material only. The average cost of .46 per cent, or $34.50 for a $7,500 house, may be considered low.

Reroofing.—Although the house you contemplate buying may have a new roof, you should take into

consideration that the average roof is guaranteed for only ten years, and although some of them will last thirteen or fifteen years, it is well to be prepared financially to do this work whenever it is needed. A reserve based on .34 per cent, or in this case $25.50, is recommended.

Summarizing the above we obtain the following:

Item	Per cent of total value $10,000	Per cent of value of house $7,500	Estimated expenses
Interest on investment..	6		$ 600.00
Taxes................	1.18		118.00
Depreciation..........		2.44	183.00
Insurance............		.21	15.75
Painting..............		.63	47.25
Plumbing.............		.17	12.75
Decorating...........		.46	34.50
			$1,011.25

After allowing interest on the total value of the property and after allowing for a reserve to take care of depreciation and repairs, the estimated expense of carrying this home would be $1,011.25. If this home could be rented for $1,200, then the owner would have a profit of $188.75 over and above reasonable interest, depreciation, and repairs. In this case he would have a good investment as well as a home.

The actual amount which you will pay out each year will, of course, be less than is shown in the above estimate. For example, when you have paid $5,000 on your home, then your actual interest pay-

ments will be only $300 instead of $600. The other $300 represents the amount you are losing in interest on the money you have invested in the home. The charge for depreciation will not actually be paid out, but merely represents an amount which, if held in reserve, will eventually replace the cost of the house when that becomes necessary. The actual payments would, therefore, be $1,011 minus $483, or $528, and all or a part of this $483 would be applied toward reducing the mortgage.

Unfortunately, many people have purchased homes on which the carrying charges are in excess of what similar properties could be rented for, and others have found that their carrying charges are far greater than they had anticipated. However, as one man said, in submitting a report of his experience in connection with owning a home:—

"The real value in owning a home is that it develops a sense of responsibility to the community in which one lives, makes better citizens, and encourages thrift; because there is no better factor for making people save than when they must pay a stipulated amount each month, which they gladly do when they know it is on their own home in which they can see their equity growing month by month. It also has the effect of knitting the family closely together by bringing forward the comfort and unity which goes with home ownership. It teaches both man and wife economy because they quickly learn that, to properly protect their investment, they must not only take good care of the property, but, to hold down its cost, they must learn to do a great deal of their own repair work, rather than call for outside

help, as would be the case if they were renting. By doing most of the repair work yourself, and doing it promptly, you cut down the depreciation charge and prolong the life of the property."

Some home owners charge themselves the estimated amount of rent they would have to pay if they were renting their home. This amount is deposited in a savings bank and the only withdrawals from this account are for the following and similar purposes:

Interest on mortgage
Taxes
Fire insurance on house
Painting and decorating
Plumbing
Reroofing
Other repairs
Interest on difference between mortgage and present value of property. The amount of these charges should be transferred to your regular account.

Payments to reduce mortgage should not be taken from the house-expense account because these payments increase your investment instead of increasing your expense.

When the balance in this home-expense account is more than you care to keep on deposit in a savings bank, you may withdraw a part of it and invest it elsewhere. Interest on such investments should be deposited in the home-expense account.

The amount remaining in this account at any time, plus the investments made with funds with-

drawn from this account, will represent your depreciation reserve plus any profit in excess of interest on your investment.

Can I Afford to Own a Home and How Much Can I Afford to Pay For It? This question is frequently asked by people who have the desire to buy a home, but who fear that an obligation of from $5,000 to $10,000 is more than they can assume.

It is useless to try to set up arbitrary standards for determining the price that families having a certain income can afford to pay for a home, because of the fact that families having the same income may not be able to pay the same amount toward the purchase of a home. Besides, people's tastes and standards of living differ. Some prefer to spend more than the average for shelter and less for something else. Some authorities estimate that the value of one's home should be about two or two and one-half times one's annual income. According to this estimate a home costing $6,000 could be bought on an income of from $2,400 to $3,000.

Others estimate that one can afford to spend about one-fourth of one's income for shelter. According to this estimate, a family whose income is $3,000 a year could spend $750 for shelter and, since the annual rent of a home is about 12 per cent of the value of that home, it would seem that a family having an income of $3,000 could buy a home valued at $6,250.

The fact is that anyone who has saved, or can save, enough money to make a first cash payment, can afford to buy a home valued at about the same amount as a home he can afford to rent, provided

that he can continue to save and reduce his mortgage.

For example, if a man is now paying $60 a month, or $720 a year, for rent, then the value of the home he is renting is about $6,000, because the charge for rent averages about 12 per cent of the value of the property. Since the rent charge is approximately the same as the carrying charge, a man who is renting a $6,000 home can feel reasonably sure that he can pay the carrying charges on the same kind of a home.

If this man has saved at least $1,500 and can use not less than $1,200 of this amount to make a first payment on a home (holding the remaining $300 in reserve for emergencies) then he can borrow the balance, $4,800, on a first and second mortgage. If he can save about $400 a year, then he can pay off these mortgages in about twelve years.

In other words, if you can afford your present rent charges, then you can also afford to pay the taxes, interest, insurance, and other carrying charges on a home valued at approximately the same as the one you are renting.

If you can save money, then you need not worry about a mortgage, because your savings can be used to pay off the mortgage. As a general rule, home buyers save more money than renters, because of the incentive to save and because of the compulsory feature.

The United States Department of Commerce has prepared an excellent booklet entitled *How to Own Your Home—A Handbook for Prospective Home Owners.* If you are interested in buying a home it

would be well for you to read this booklet. It presents a thorough discussion of the many factors to be considered by prospective home owners. The booklet can be obtained for five cents from the Superintendent of Documents, Government Printing Office, Washington, D. C.

When you have decided that you can afford to buy a home and how much you can pay for it, do not be in a hurry and rush into the first proposition that is presented. Be cautious, compare values, seek competent advice, and engage a reputable lawyer to handle the necessary legal matters.

As a general rule, if a reliable, conservative, and well-established bank or building and loan association will take your mortgage, it is an assurance that your proposition is sound. The officers of these institutions are usually qualified to give excellent advice to home buyers.

It is desirable to avoid speculative buying, or buying during periods of inflation. It is safer to buy at a time when prices are reasonably low.

Home owners should be adequately protected by life insurance, fire insurance, tornado insurance (in localities where this danger exists), rent insurance, and general liability insurance.

Sufficient life insurance under the term form of policy should be carried to insure the payment of your mortgage, in case you should be taken before the mortgage is fully paid. Otherwise, the insurance which you purchased in order to give your dependents an income must be used for that purpose or their home may have to be sacrificed. In other words, your family will inherit a mortgage instead

of a home unless you provide the necessary funds for paying the mortgage at your death.

If your home is damaged by fire and if you carry fire insurance, the damage will be paid by the insurance company. However, if you must vacate your home for an indefinite period on account of damages by fire and water, and if you must pay rent elsewhere until the damages have been repaired, you can also be relieved of these expenses by buying rent insurance.

Liability insurance is carried for the purpose of protecting a property owner against loss due to liability imposed by law upon the owner for damages on account of bodily injuries or death, resulting from an accident occuring to any person while upon the premises so insured.

If, for example, a person should fall as a result of snow or ice on your sidewalk or, as a result of a rotted board on your steps, and if suit were entered against you for actual or alleged damages, then the expense of owning your home might be increased unless you carry liability insurance.

CHAPTER XIV

Necessity for Making a Will

If MORE people knew how, at their death, their property will be disposed of by law, no doubt more of them would make a will.

Any person of sound mind and of legal age has the right to say how his property shall be disposed of. If he fails to exercise this right, then at his death the law steps in and says how it shall be disposed of.

In some states, when a man having a wife and children dies without leaving a will, the law provides that his wife shall have only a life interest in one-third of his real estate and the remainder is divided equally among his children or their descendants. When his wife dies the third in which she had a life interest is divided among his children or their descendants.

The law further provides that when a man having a wife and children dies without leaving a will, his wife shall receive one-third of his personal property outright and the remainder is divided equally among his children or their descendants.

In some cases, especially where the estate is small or where the children are minors, this arrangement might be a real hardship to the widow, because her share might not be sufficient to provide for herself and the children. Under certain conditions she

might be permitted to use a part of the children's share for their maintenance or education. However, in such cases, she will be required to keep an accurate record of how the money is spent and report to the court. For carrying out the court's directions, a bond will be required and this will still further reduce her limited means.

If you want your wife to have full use of your entire estate when you die and if you think it would be a hardship for her to try to get along on only one-third of what you have provided, then, by all means, you should make a will.

In order to be sure that your wife will inherit all of your property or perhaps for other reasons, you might be handing over to her all of your pay except what is needed for your personal expenses. Perhaps she is not only paying all of the household bills, but is also taking care of savings and investments and these are held in her name.

If she should predecease you without leaving a will, then in some states you would obtain only one-third of your wife's personal property. The other two-thirds would be divided equally among your children or their descendants.

This might be a real hardship to you especially if your children are minors and indicates the necessity of your wife making a will if your savings are in your wife's name and if it will be necessary for you to use more than one-third of these savings in case of her death.

Now consider a case where a man dies leaving a wife but no children. According to the law in some states, if this man leaves no will, his wife will have

only a life interest in one-third of his real estate and the remainder goes to his parents, or if no parent survives him, his real estate is divided among his near relatives. One-half of his personal property goes to his wife outright and the remainder goes to his parents, or if no parent survives, is divided among his near relatives.

If this is not in accord with the wishes of those who have a wife and no children, then they should make a will stating clearly what disposition they desire made of their property.

If you and your wife are killed in the same catastrophe, all of your estate will go to your children. If the children are minors, then a guardian will be appointed by the court. You might like to say who the guardian should be, also when, and in what amounts, the children shall receive their shares of your estate. This may be provided for in a will.

Perhaps you would like to make provision for an aged or infirm parent. In some states the law does not make such provision; only by making a will can you so provide.

If you are in doubt regarding the necessity for making a will you should consult a reputable lawyer, who will advise you in detail regarding the distribution of property in your state and in your particular case in the absence of a will.

Your Executor and Trustee. After you have decided that you should make a will, your next consideration should be the selection of a competent executor and trustee.

Naturally your first thought is for your wife. You are accumulating an estate for her and the

children. No one could be more interested in her welfare and the well being of the children. Why should she not be appointed as the executrix and trustee of your estate. The principal objection is that she is an individual, and many things may happen to an individual—for example, she may die in the same catastrophe which carried you away or she may die later without leaving a will. True, you may say who shall be appointed under such circumstances; however, if you name another individual he or she may not be able to qualify.

Besides, the judgment of one individual who is inexperienced in handling an estate is seldom as good as the combined judgment and experience of several men whose business it is to act as executor and trustee.

Trust companies have the proper facilities for carrying out to their final conclusion the provisions of a will. Their service is continuous, they never die. They know how to invest and reinvest your savings and although they charge for their service, it is likely that the total net income from your estate will be larger if handled by a trust company than it would be if handled by an inexperienced individual.

If the greater portion of your estate is in life insurance and if your home is held jointly by yourself and wife, then there is not the same need for appointing a trust company to handle your estate. Your insurance can be so written that it is practically a will and trust fund combined. You may specify in your insurance policies to whom the money should be paid, also when and in what amounts.

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The following pages contain advertisements of other Harper business books